

MAY 14 1992

IN THE
Supreme Court of the United States
OCTOBER TERM, 1992

PROFESSIONAL REAL ESTATE INVESTORS, INC.,
and KENNETH F. IRWIN,
Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,
EMBASSY PICTURES,
PARAMOUNT PICTURES CORPORATION,
TWENTIETH CENTURY-FOX FILM CORPORATION,
UNIVERSAL CITY STUDIOS, INC.,
WALT DISNEY PRODUCTIONS,
WARNER BROS., INC., and
CBS, INC.,
Respondents.

**On Writ Of Certiorari To The United States Court of
Appeals For The Ninth Circuit**

**JOINT APPENDIX
VOLUME II OF II**

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JA-357

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED

JAN 14 1986

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY**

**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND
ORDER**

This is a civil action brought by eight movie studios alleging copyright infringement. Plaintiffs content in their complaint that defendants operate a resort facility and violate plaintiffs' copyrights to certain motion pictures by renting videodiscs of those motion pictures to the guests who stay at the resort for viewing on videodisc players placed by defendants' in the guest rooms for them. The central issue raised by the complaint is whether guests at the resort are "publicly performing" the videodiscs when

they view the videodiscs in the privacy of the rooms they have rented.

The defendants filed an answer, which denied any wrongdoing, and filed counterclaims essentially alleging antitrust violations under the federal and state laws and unfair competition. Defendants' counterclaims were not at issue in the present motions.

The parties have filed cross summary judgment motions concerning the plaintiffs' copyright infringement claim. The parties have thoroughly briefed the infringement issue and a hearing on the cross-motions was held on December 16, 1985. Plaintiffs' claim of copyright infringement fails as a matter of law. The hotel rooms involved in this action are not public places under the copyright law. The findings of fact and conclusions of law, which form the basis of this opinion, are provided below.

FINDINGS OF FACT

A. Parties

1. The plaintiffs are eight movie studios that claim to own the copyrights in the motion pictures alleged to have been infringed. Plaintiffs are Columbia Pictures, Inc., a Delaware corporation; Embassy Pictures, a joint venture organized under the laws of the State of California between Lear Productions, Inc. and Perenchio Pictures, Inc.; Paramount Pictures Corporation, a Delaware corporation; Twentieth Century-Fox Film Corporation, a Delaware corporation; Universal City Studios, Inc., a Delaware corporation; Walt Disney Productions, a California corporation; Warner Brothers, Inc., a Delaware corporation; and CBS, Inc., a New York corporation.

2. Defendants are Professional Real Estate Investors, Inc., a California corporation, and its principal owner and chief operating officer, Kenneth F. Irwin. As pertinent to this case, Professional Real Estate Investors, Inc. operates

a resort known as La Mancha Private Club and Villas, located at 444 North Avenida Caballeros, Palm Springs, California. Mr. Irwin, a resident of the State of California, is a principal shareholder, director and chief operating officer of Professional Real Estate Investors, Inc. Mr. Irwin, in his capacity with Professional Real Estate Investors, Inc., serves as the chief operating officer and manager of the La Mancha resort.

3. The complaint also names as a defendant Erland Kyllonen. Mr. Kyllonen does not appear to have been served with the complaint, has not answered the complaint, and has never made an appearance in this matter.

B. Jurisdiction and Venue

4. This action arises under the copyright laws of the United States. 17 U.S.C. § 101, et seq. (1982). This court has subject matter jurisdiction over this action pursuant to Section 1338(a) of Title 28 of the United States Codes, and venue lies in this district under Section 1400(a) of Title 28 of the United States Codes. 28 U.S.C. §§ 1338(a), 1400(a) (1982).

C. The Copyrights at Issue

5. Plaintiffs alleged in their complaint infringement of 74 motion pictures for which plaintiffs own the copyrights. Defendants rented copies of 49 for viewing by their guests in their hotel room. In their summary judgment motion, plaintiffs omitted nine of the copyrighted motion pictures named in the complaint because they had no proof that they had in fact been infringed. As a result of disputes over ownership raised by defendants, plaintiffs withdrew their claim for eight more of the alleged copyrighted motion pictures. Defendants claim that plaintiffs had also failed to show that they owned the copyrights for at least eight more of these 74 motion pictures. In light of my decision today, the issue need not be addressed.

D. The Allegations of Copyright Infringement

6. The defendants operate the La Mancha resort in Palm Springs, California. The resort rent 50 units that it refers to as guest villas" and which are available in one, two or three bedroom floor plans. Each villa has its own kitchen, living room, bath, patio and most have private swimming pools.

7. There is a dispute as to whether La Mancha is a private club or a hotel. This issue does not have to be reached in light of my decision. Without deciding the issue or prejudicing the parties' arguments concerning this issue, I will consider the La Mancha resort a hotel for the purposes of this decision.

"7A. Defendants' resort, including its guest accommodations, is unquestionably open to the public. Indeed, defendants advertise La Mancha nationwide as a 'destination resort', offer group rates and offer the La Mancha villas by the night. Moreover, to stay at La Mancha, one need only call the hotel and reserve a room or make a reservation through a travel agent. No proof of membership in the 'club' is required for such a reservation. Nor is any such proof of membership required of a guest registering at La Mancha. Upon registering, La Mancha's front desk personnel request only a credit card and driver's license.

7B. To attract members of the general public, defendants have advertised La Mancha in several prominent national and regional publications such as The New Yorker Magazine, Forbes Magazine, Los Angeles Times, Chicago Tribune, Los Angeles Magazine, San Diego Magazine and Travel & Leisure. In addition, Irwin has prepared and distributed press releases and brochures to inform the public about La Mancha."

8. Commencing in late 1981, defendants purchased videodisc players and over the course of the next few months installed them in each rental unit. One disc player is also located in the gift shop for demonstration use only. None of the videodisc players is or was located in common areas such as the lobby or restaurant of the defendants' resort. There is no allegation or proof that the defendants ever showed movies in any of common areas at the resort.

9. Defendants purchased an inventory of videodisc movies from RCA corporation. RCA is a licensed manufacturer and distributor of the copyrighted movies contained on the videodiscs. Plaintiffs do not contend that defendants had obtained, rented or sold any illegal or pirated copies of the motion pictures. The videodiscs at issue were all lawfully obtained and are authorized and lawful copies of plaintiffs' motion pictures. There is also no claim that defendants retransmitted by way of cable or other means any videodisc movies to any of the rental units at their resort.

10. Guests at defendants' resort could, for a fee ranging from \$5.00 to \$7.50 rent the videodiscs, take them back to their accommodations, and watch the movie on the televisions sets and videodisc players furnished in each unit. Guests at defendants' resort could watch a rented video movie at any time and could rent as many videodisc movies as desired. The videodisc rental fee would be included on the guests' bill. Defendants advertise the availability of these discs.

11. In the fall of 1982, plaintiffs' counsel sent a letter to defendant protesting their rental of videodiscs to guests staying at defendants' resort. After an exchange of correspondence, plaintiffs filed their copyright infringement claim on April, 25, 1983.

12. Any conclusion of law stated below, to the extent that it constitutes a finding of fact, is herein incorporated by reference as an additional finding of fact.

CONCLUSIONS OF LAW

A. Issues

1. The issue raised by the complaint is one of the first impressions—whether guests at a hotel or similar accommodations are “publicly performing” the videodiscs when they view the videos in the rooms that they have rented. Plaintiffs argue that a hotel, even including its private bedroom accommodations are “a place open to the public” under the copyright law, and that viewing copyrighted motion pictures on video equipment in the hotel room or similar accommodation would constitute a public performance under the copyright law.

2. Defendants argue that hotel rooms have traditionally been considered private and, therefore, would not be public places under the copyright law. Defendants contend that the purpose of renting a hotel room is to obtain short-term living accommodation while one is away from home, and not to view motion pictures. I conclude that the viewing of a motion picture in a hotel room is not different from viewing movies in a private home, which is admittedly a private use and not a public performance under the copyright law.

3. There is no issue but that the defendants have the right to rent videodisc movies. Under the first sale doctrine, any person who purchases or obtains a legitimate copy may “without authority of the copyright owner...sell or otherwise dispose of the possession of that copy...” 17 U.S.C. § 109(a); *accord, United States v. Moore*, 604 F.2d 1228, 1232 (9th Cir. 1979). In enacting the copyright law, Congress expressly stated that “the person to whom the copy... is transferred is entitled to dispose of it by sale, rental, or any other means.” H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79, *reprinted in*, 1976 U.S. Code Cong. & Ad. News 5659, 5693. The law allows the copyright owner to set and collect a royalty when he first sells each copy of the work. Additional royalties on sub-

sequent sales or rentals are not required under the copyright law. Defendants purchased authorized copies of the videodiscs for which plaintiffs were paid a royalty on that sale. Accordingly, defendants obtained the right to rent the videodiscs at issue, so long as they do so not for the purpose of unauthorized public performance.

4. Defendants have raised six counterclaims which principally allege various antitrust and unfair competition practices. The validity of these claims was not raised in the summary judgment motions.

5. Defendants also raised a number of factual issues which they allege would preclude plaintiffs’ summary judgment. Inasmuch as I am denying plaintiffs’ summary judgment motion, these issues need not be addressed.

6. There is also no claim that defendants performed the video movies in any of the common areas of its resort. Plaintiffs also do not claim that defendants played a video movie and retransmitted it through a cable or similar system to each of the rented units. Rather, the sole issue to be decided is whether a hotel room in the defendant’s facility is “a place open to the public” under the copyright law and whether the viewing of video movies in such accommodation is public performance.

B. A Place Open to the Public Under the Copyright Laws

7. Under the copyright law, a movie is publicly performed if viewed either “at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances gathered...” 17 U.S.C. § 101 (1982). The record indicates that the movie viewed in the accommodations at defendants’ resort are limited to “a normal circle of a family and its social acquaintances.” As a result, in order for plaintiffs to prevail, the rental units at defendants’ resort must be considered “a place open to the public”

8. The two parts of the definition of public performance are disjunctive. Public performance does not require both a place open to the public and a public audience. The normal composition of the audience, however, does help to determine whether a place is public. See, 2 *Nimmer on Copyright* § 8.18 [C][1][d] (1985). Places in which normally only a family and its social acquaintances gather is a strong indicator that the place is not open to the public.

9. Private places and private uses of video movies are not limited to homes. Congress in enacting the copyright law identified clubs, lodges, factories, summer camps, schools and business and governmental offices all as places where viewing movies would not be considered a public performance. H.R. Rep. No. 1476, 94th Cong. 2d Sess. 54, reprinted in, 1976 U.S. Code & Cong. & Admin. News 5659, 5677-78.

C. Private Nature of Hotel Rooms

10. In order for plaintiffs to prevail, it is necessary to rule, at a minimum, that all hotel rooms are public places under the copyright laws. Hotel rooms, however, have traditionally been considered private places under other laws. A hotel room is subject to the Fourth Amendment protection under the United States Constitution because guests at hotels have a reasonable expectation of privacy while they are in their rented room. *Hoffa v. United States*, 385 U.S. 293, 301, 87 S. Ct. 408 (1966).

11. Similarly, it is also well established under the common law that a guest at a hotel has a right of privacy to the peaceful enjoyment of the accommodation. *People v. Vaughn*, 65 Cal.App.2d 84, 150 P.2d 964, 976-68 (1944). In fact, an innkeeper is liable for damages if he or his employees unjustifiably enter the guest's room. *Frewen v. Page*, 280 Mass. 499, 131 N.E. 475 (1921). Although not binding, these rules provide guidance on the private nature of hotel rooms.

12. When occupied, a hotel room is private and the occupant expects and is entitled to such privacy. The purpose of renting a hotel room is to obtain living accommodations whether short-term or long-term. In this respect, hotel rooms are no different from private homes. Similarly, viewing movies in a hotel room would be an incidental form of entertainment, and is no different from viewing movies in a home. Home use of videos is admittedly a private and not a public performance.

13. For these reasons, a hotel room is not a place open to the public under the copyright laws and the viewing of video movies in such accommodations is not a public performance under the copyright laws. See 2 *Nimmer on Copyright* § 8.18[C][1][d] (1985).

D. Redd Horne and Aveco Cases

14. This decision is not contrary to the recent decisions in the Third Circuit in *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 568 F. Supp. 494 (W.D. Pa. 1983), *aff'd*, 749 F.2d 154 (3d Cir. 1984) and *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F. Supp. 315 (M.D. Pa. 1985). The defendants in both those cases operated video stores in which they set up small rooms in the back for the purpose of viewing movies. For a fee, customers could rent the video movies and view them in these small viewing rooms. The courts in those cases considered those viewing rooms to be mini-movie theaters and thus, like a movie theater, public places. As a result, viewing movies in these public mini-theaters was a public performance.

15. The principal and sole purpose of the viewing rooms in the *Redd Horne* and *Aveco* cases was to watch movies. In contrast, a hotel is a place to live while away from one's permanent home. The primary or even a principal reason of renting a hotel room is not to view movies. At best, the viewing of movies in a hotel room is incidental entertainment, no different from viewing movies in the privacy of one's home.

E. Conclusion

16. The plaintiffs, as a matter of law, cannot prevail on their copyright claims in this case. Hotel rooms, and thus the units rented at defendants' resort, are not places open to the public under the copyright law, and viewing copyrighted motion pictures on video equipment in a hotel room is not public performance under the copyright law.

17. Defendants are therefore entitled to summary judgment on these copyright issues. There are no genuine issues of material fact which would preclude entry of such a judgment in favor of the defendants.

18. Any finding of fact stated above, to the extent that it constitutes a conclusion of law, is hereby incorporated by reference as an additional conclusion of law.

ORDER

1. Upon consideration of the cross-motions for summary judgment, the briefs filed with regard to those motions, and the argument of counsel, the court has determined that there is no genuine issue of material fact which precludes summary judgment for the defendants on the issues raised in the complaint and that the defendants are entitled to summary judgment on these issues as a matter of law pursuant to Fed. R. Civ. P. 56(a).

2. It is hereby ordered, adjudicated, and decreed that the rental by defendants of videodiscs of plaintiffs' copyrighted films to members and guests at defendants' resort for the purpose of permitting them to view those motion pictures in the units they have rented does not violate plaintiffs' exclusive rights under Section 106 of the copyright law (17 U.S.C. § 106) to perform publicly and to authorize the public performance of such motion pictures.

3. The claims raised in plaintiffs' complaint are, therefore, dismissed and final judgment shall be entered in favor

of defendants on these claims. Plaintiff's motion for Summary Judgment and Permanent Injunction is denied.

4. Plaintiffs shall pay the defendants' cost incurred in defending this action.

5. The clerk shall enter a judgment in accordance herewith as a final judgment pursuant to Fed. R. Civ. P. 54(b), the court expressly determining that there is no just reason for delay.

These findings and *conclusions*, although prepared by counsel, are in substantial complete accord with the opinion and decision that I rendered orally at the conclusion of the hearing on the cross motions.

Dated: JAN 13 1986

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,
vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.
AND RELATED COUNTERCLAIMS

**PLAINTIFFS' AND COUNTERDEFENDANTS' NOTICE
OF MOTION AND MOTION FOR AN ORDER STAYING
PROCEEDINGS ON COUNTERCLAIMS PENDING
RESOLUTION OF THE APPEAL; MEMORANDUM OF
POINTS AND AUTHORITIES**

Hearing Date: March 24, 1986
Time: 10:00 A.M.
Courtroom No.: 23

TO DEFENDANTS AND COUNTERCLAIMANTS AND TO
THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that on March 24, 1986 at 10:00 A.M., or as soon thereafter as the matter can be heard, plaintiffs and counterdefendants will move the Court, in the courtroom of the Honorable William P. Gray, United States District Judge, located at the United States Court-house, 312 North Spring Street, Los Angeles, California, and plaintiffs and counterdefendants do hereby move the Court, for an order staying all proceedings on the counterclaims pending resolution of the appeal of the Court's grant of summary judgment in favor of defendants.

This motion is based on the following grounds:

1. If the proceedings are stayed pending resolution of the appeal, it will expedite determination of defendants' allegation that plaintiffs' lawsuit was a sham, since the lawsuit could not have been a sham if plaintiffs are successful on appeal. Alternatively, if the defendants' motion for summary judgment is affirmed, the Court of Appeals opinion may give guidance on the issue of whether the plaintiffs' legal claims were worthy of litigation.

This motion will be based upon this Notice of Motion, Memorandum of Points and Authorities, and upon all of the pleadings, records and papers on file herein.

DATED: February 26, 1986

Respectfully submitted,

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MEMORANDUM OF POINTS AND AUTHORITIES

I.

BACKGROUND

By this motion, plaintiffs seek the assistance of the Court to impose rationality into the pending proceedings on defendants' counterclaims. Briefly, plaintiffs contend that a just, economical, and efficient resolution of defendants' claims will be promoted if all proceedings are stayed pending appeal.

This action commenced when plaintiffs sued the defendants for infringement of plaintiffs' exclusive rights under the Copyright Act to publicly perform and to authorize the public performance of 65 copyrighted motion pictures owned and/or controlled by them. Defendants answered and counterclaimed for violations of Sections 1 and 2 of the Sherman Act, violation of the Cartwright Act, Unfair Competition, and Breach of the Covenant of Good Faith and Fair Dealing. The crux of defendants' counterclaim is that plaintiffs filed this lawsuit.

Plaintiffs moved for summary judgment on their copyright claim on the ground that the exhibitions of plaintiffs' video discs in defendants' guest villas constituted public performances in violation of § 106(4) of the Copyright Act. Defendants cross-moved for summary judgment on the ground that these same exhibitions did not constitute public performances in violation of the Copyright Act. This Court granted defendants' motion and denied plaintiffs' motion. Plaintiffs have appealed this ruling. For the reasons discussed below, this Court should order a stay of proceedings pending resolution of this appeal.

II.

THE COURT IS FULLY EMPOWERED TO STAY THESE PROCEEDINGS

This Court is fully empowered to stay proceedings in the interest of saving time and effort for itself and the

litigants. *E.g.*, *Landis v. North American Co.*, 299 U.S. 248, 254-55, 57 S. Ct. 163, 165-66, 81 L.Ed. 153 (1936). *Filtrol Corp. v. Kelleher*, 467 F.2d 242, 244 (9th Cir. 1972), *cert. denied*, 409 U.S. 1110, 93 S.Ct. 914, 34 L.Ed.2d 691 (1973); *Wilcox v. Ho-Wing Sit*, 586 F.Supp. 561, 567 (N.D. Cal. 1984). As the Ninth Circuit recently stated:

[a] trial court may, with propriety, find it is efficient for its own docket and the fairest course for the parties to enter a stay of an action before it, pending resolution of independent proceedings which bear upon the case. This rule applies whether the separate proceedings are judicial, administrative, or arbitral in character, and does not require that the issues in such proceedings are necessarily controlling of the action before the court.

Mediterranean Enterprises, Inc. v. Ssangyong, 708 F.2d 1458, 1465 (9th Cir. 1983), quoting *Leyva v. Certified Grocers of California, Ltd.*, 593 F.2d 857, 863-864 (9th Cir.), *cert. denied*, 444 U.S. 827, 100 S.Ct. 51, 62 L.Ed.2d 34 (1979).

III.

THE GRAVAMEN OF THE COUNTERCLAIMS SHOULD BE RESOLVED BY THE APPEAL

Staying the proceedings pending resolution of the appeal in this case will promote efficiency and fairness to both parties. The gravamen of defendants' counterclaims is that the main action is a sham. In defendants' first, second, and third counterclaims, defendants allege that the primary unlawful activity which plaintiffs have engaged in is "the filing of this suit, which is a sham and false and known by plaintiffs to be so; [and] bad faith prosecution of this suit." Answer to Complaint and Counterclaim, dated February 9, 1984 at 10, ¶ 34, at 12, ¶ 39, at 13, ¶ 45. Moreover, in defendants' fourth, fifth, and sixth counter-

claims, defendants seek damages for expending substantial sums of money to defend against plaintiffs' suit.

The "sham litigation" doctrine is a narrow exception to the "Noerr-Pennington" doctrine which confers broad immunity from liability under the antitrust laws for bona fide attempts to influence legislative, administrative, and judicial bodies. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 92 S.Ct. 609, 30 L.Ed. 2d 642 (1972); *United Mine Workers v. Pennington*, 381 U.S. 657, 85 S.Ct. 1585, 14 L.Ed.2d 626 (1965); and *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 81 S.Ct. 523, 5 L.Ed. 2d 464 (1961).

In *Noerr*, the Supreme Court held that Sherman Act liability could not be predicated on mere attempts to influence the passage or enforcement of laws by the Legislature or the executive, even if that attempt had only an anti-competitive purpose. 365 U.S. at 135-140, 81 S.Ct. at 528-31. However, the *Noerr* Court also stated:

[t]here may be situations in which a publicity campaign, ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified.

Id. at 144, 81 S.Ct. at 533.

In *Pennington*, the Supreme Court held that attempts by coal operators and unions to influence the Secretary of Labor fell under the *Noerr* doctrine, even though such conduct was intended to eliminate competition. 381 U.S. at 669-70, 85 S.Ct. at 1592-93. Finally, in *California Motor Transport*, the Supreme Court applied the *Noerr-Pennington* principles to efforts to influence judicial or administrative agencies, or to file proceedings in the same. Specifically, it was alleged in that case that defendants

filed repetitive and baseless claims for the sole purpose of barring plaintiffs' access to the agencies and the courts. 404 U.S. at 512, 92 S.Ct. at 612. The Court held that such allegations, if proven true, would fall within the "sham litigation" exception to the *Noerr-Pennington* doctrine. Thus, in order to take away the cloak of antitrust liability immunity given the bona fide filing of lawsuits, defendants must show that plaintiffs' lawsuit was a sham.

If plaintiffs are successful on appeal, it follows conclusively that plaintiffs' lawsuit was *not* a sham. See, e.g., *Mid-Texas Communications Systems, Inc. v. Amer. Tel. & Tel. Co.*, 615 F.2d 1372, 1383 (5th Cir.), *cert. denied*, 449 U.S. 912, 101 S.Ct. 286, 66 L.Ed.2d 140 (1980); *Franchise Realty Interstate Corp. v. San Francisco Local Joint Executive Board of Culinary Workers*, 542 F.2d 1076, 1079 (9th Cir. 1976), *cert. denied*, 430 U.S. 940, 97 S.Ct. 1571, 51 L.Ed.2d 787 (1977). Therefore, the Court should stay the action until resolution of the appeal as a means of simplifying and expediting the determination of whether plaintiffs' complaint was a sham.

A decision involving facts and considerations quite similar to the present case is *Baxter Travenol Laboratories, Inc. v. Le May*, 536 F.Supp. 247 (S.D. Ohio 1982). In *Baxter*, plaintiffs alleged in their complaint that defendants were liable for misappropriation and conversion of trade secrets, breach of contract, and breach of fiduciary duty. Defendants counterclaimed for antitrust law violations under the Sherman and Clayton Acts, for defamation, and for breach of contract. Plaintiffs moved, pursuant to Fed. R. Civ. P. 42(b), to bifurcate the claims by holding a separate trial on the antitrust and other counterclaims *after* a trial on their claims. Defendants contended that the antitrust claims should be tried first.

Plaintiffs in *Baxter* argued that the "sham litigation" component of defendants' counterclaim required that the allegedly "meritless" litigation be tried first, since litiga-

tion can only be considered "baseless" once it is terminated in favor of the party bringing the antitrust action. Defendants argued that litigation can be shown to be "baseless" before, or even without, it being terminated. Ultimately, the Court held that plaintiffs' complaint should go forward first, even though defendants' antitrust counterclaim was not based entirely on the allegedly "sham litigation," "in order to aid in the determination of whether said complaint is baseless." *Id.* at 253. In so doing, the Court explained as follows:

Although most of the recent case law concerning the "sham" exception has not specifically addressed this point, the weight of authority seems to fall on Plaintiffs' side. Analogizing the "sham" exception to the tort of malicious prosecution, many courts, including two within this Circuit, have held that termination of the litigation in favor of the antitrust plaintiff, while not a rigid requirement, is strong evidence, and probably dispositive, of the issue of the allegedly "baseless" nature of the litigation. [Citations omitted.]

Id. at 252.

Therefore, although *Baxter* involved a court's exercise of discretion under Fed. R. Civ. P. 42(b), the court, under factual circumstances similar to those presented here, held that the non-antitrust claims should be allowed to proceed first in order to aid the court in its determination of the "sham" exception. See also *Clipper Express v. Rocky Mountain Motor Tariff*, 690 F.2d 1240, 1254 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227, 103 S.Ct. 1234, 75 L.Ed.2d. 468 (1983) ("while the success or failure of the [lawsuit] is not singularly determinative of a party's intent, this Circuit regards such success as indicative of a party's intent"); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 903 (9th Cir. 1983) ("we can draw no inference [with regard to whether the effort to invoke judicial process was gen-

uine or a mere sham] from the fact that the state court action was still pending when the district court entered judgment. Success or failure might be helpful as one indication of Loral and Conic's intent in bringing the action, . . . but such an indication is not available before the state action is terminated").

In short, if this Court stays the proceedings until resolution of the appeal, and plaintiffs are victorious, defendants' antitrust allegations based on a sham effort to obtain judicial action, should be disposed of. Even assuming, *arguendo*, plaintiffs do not prevail on appeal, the Ninth Circuit's decision will certainly aid this Court in determining whether plaintiffs' claims were bona fide efforts to obtain judicial action.¹

In addition, there is a serious possibility of inconsistent rulings if defendants are allowed to prove at trial a sham lawsuit without benefit of knowledge of the final outcome of plaintiffs' claims on appeal. Consider this scenario: the proceedings are not stayed; defendants prevail at trial on their "sham lawsuit" theory; the court of appeals later reverses the summary judgment in favor of plaintiffs on the copyright infringement claim. Is it not obvious that the "sham lawsuit" claim would have to be re-tried? Certainly, the Court should avoid this inequitable and prejudicial result by staying proceedings temporarily until resolution of the appeal and the allegation that plaintiffs' complaint was baseless.

¹ If plaintiffs are successful on appeal, the "sham" allegation should be disposed of. Of course, the converse is not true, because the Sherman Act does not preclude a good faith attempt to assert or protect a copyright interest, even if unsuccessful. See, e.g., *Classic Film Museum, Inc. v. Warner Bros, Inc.*, 523 F.Supp. 1230, 1234 (D. Me. 1981).

JA-376

V.
CONCLUSION

For the reasons discussed above, plaintiffs respectfully request the Court to enter an order staying all further proceedings in this action pending resolution of the appeal.

DATED: February 26, 1986

Respectfully submitted,
ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
MAREN CHRISTENSEN
DIANA J. SIMON

By Diana J. Simon
DIANA J. SIMON
Attorneys for Plaintiffs
and Counterdefendants

[Certificate of Service omitted in this printing]

JA-377

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

FILED

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**U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY**

**DECLARATION OF NON-COMPLIANCE IN SUPPORT OF
MOTION TO COMPEL PRODUCTION OF DOCUMENTS**

Date: March 24, 1986

Time: 10:00 a.m.

Place: Courtroom 23

**DECLARATION OF COUNSEL OF NON-COOPERATION
BY THE OPPOSING PARTY PURSUANT TO LOCAL
RULE 7.15.2**

I, Patrick J. Coyne, declare:

1. I am a member of the bar of the District of Columbia and am associated with the law firm of Collier, Shannon,

Rill & Scott. I have worked with Jeffrey W. King on the defense of the case *Columbia Pictures Industries, Inc., et al. v. Professional Real Estate Investors, Inc., et al.*, No. 82-2594 W.P.G., since the fall of 1984. I have knowledge of the facts set forth below and, if called as a witness at any hearing or trial, would testify to these facts based on my personal knowledge.

2. On January 7, 1985, Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively referred to as "Irwin"), served by mail on counsel for plaintiffs Defendants' and Counterclaimants' Request for Production of Documents, Nos. 1 to 40.

3. The parties did not stipulate and, pursuant to Rule 29 of the Federal Rules of Civil Procedure, an order extending the time to respond to the document request, was not sought by plaintiffs or granted.

4. On February 7, 1985, plaintiffs and counterdefendants served by mail on counsel for Irwin Plaintiffs' Objections to Defendants' Document Request.

5. Pursuant to Local Rule 7.15.1 of the United States District Court for the Central District of California, counsel for Irwin, by letter dated March 1, 1985, requested a meeting of counsel to discuss plaintiffs' objections and failure to respond to the document requests.

6. Despite repeated attempts by Irwin's counsel to schedule the meeting required by Local Rule 7.15.1, counsel for plaintiffs failed to meet with Irwin's counsel within the time required by Local Rule 7.15.1

7. Despite numerous attempts during the months of March, April, May, June, and July, 1985, to secure the production of even those documents to which plaintiffs did not object to production, plaintiffs failed to cooperate in producing the documents or in attempting to reduce or eliminate the discovery disputes.

8. On July 5, 1985, the Honorable William P. Gray, United States District Judge, issued notice to counsel for Irwin and plaintiffs, that a pretrial conference would be held at 10:00 a.m. on September 9, 1985.

9. Plaintiffs' counsel agreed to hold the discovery conference in conjunction with the pretrial meeting of counsel required by the local rules. The meeting of counsel pursuant to Local Rule 7.15.1 was held in Los Angeles California, on July 31, 1985, at the offices of Michael J. Dennis Law Corporation. Plaintiffs counsel was provided Irwin's proposed discovery stipulation at that meeting.

10. The July 31, 1985 meeting of counsel was attended by Jeffrey W. King and Laura J. Barns on behalf of Irwin. Plaintiffs' counsel initially refused to discuss Irwin's discovery requests at the meeting. Plaintiffs' counsel finally agreed to discuss the discovery dispute at that meeting only at the insistence of counsel for Irwin and, even then, imposed a fifteen minute time limit on the discussion after which time plaintiffs' counsel left the meeting.

11. Plaintiffs did not respond to Irwin's proposed discovery stipulation within the time required by Local Rule 7.15.4. Plaintiffs counsel never forwarded to counsel for Irwin any response to the stipulation.

12. Plaintiffs retained new counsel in this action during August, 1985.

13. The parties submitted the issues raised by plaintiffs' complaint to the Court on cross-motions for summary judgment. While plaintiffs produced a limited number of additional documents in support of their claims prior to oral argument on the parties' cross-motions for summary judgment, plaintiffs otherwise refused to produce any additional documents.

14. Counsel for the parties agreed that discovery on Irwin's counterclaims would not be pursued vigorously un-

til after resolution of the parties' cross-motions for summary judgment.

15. The Court heard oral argument on the parties' cross-motions for summary judgment on December 16, 1985. At the conclusion of that hearing, the Court ruled in favor of Irwin. The Court entered judgment on plaintiffs' complaint on January 23, 1986.

16. Following the Court's ruling on December 16, 1985, I repeatedly attempted to contact plaintiffs' counsel regarding the outstanding discovery requests relating to Irwin's counterclaims. In light of the Court's ruling on summary judgment, Irwin pursued only the document requests relating to the counterclaims. On December 31, 1985, I wrote a letter to plaintiffs' counsel requesting that counsel discuss the outstanding discovery requests relating to the counterclaims.

17. On January 3, 1986, I wrote a letter to plaintiffs' counsel requesting a second meeting of counsel pursuant to Local Rule 7.15.1 to attempt to reduce or eliminate the disputes with respect to the counterclaim discovery requests. Plaintiffs' counsel agreed to conduct the discovery conference by telephone.

18. Plaintiffs requested postponement of the conference and the second Local Rule 7.15.1 conference was commenced on January 23, 1986 but was not concluded at that time. During that meeting, both parties presented proposals for narrowing Irwin's document requests. Counsel for the parties agreed during that conference that the meeting would be continued the week of January 27, 1986.

19. I telephoned plaintiffs' counsel repeatedly in an attempt to conclude the Local Rule 7.15.1 conference. I also wrote plaintiffs counsel several letters in an attempt to conclude the conference or to ascertain plaintiffs' position on the discovery disputes. When plaintiffs finally re-

sponded on February 11, 1986, plaintiffs raised for the first time several new restrictions and objections never before raised during the parties' prior discussions of these document requests.

20. Counsel for plaintiffs has stated that plaintiffs would not waive any of their original objections. Plaintiffs have provided no additional information as to why Irwin's proposals for narrowing the requests are objectionable.

21. Counsel for plaintiffs stated on February 12, 1986 that, even were the parties able to reach an agreement on the scope of the document requests, plaintiffs would not produce any documents in response to the document requests at this time.

22. On February 14, 1986, Irwin delivered to plaintiffs' counsel a proposed discovery stipulation pursuant to Local Rule 7.15.1.

22. Although plaintiffs expressed their opinion that the stipulation contained inaccuracies, plaintiffs' counsel refused to provide me any additional information as to suggested changes, modifications, or revisions to the stipulation within the time required by the local rules, in spite of repeated, direct requests by me for such information. I offered on a number of occasions to discuss with plaintiffs' counsel plaintiffs' proposed revisions to the stipulation. Plaintiffs did not sign and return the stipulation, nor did plaintiffs provide Irwin any additional information necessary to prepare the stipulation, by February 26, 1986, as required by Local Rules 7.15.2 and 7.15.4.

23. To date, I have not received from plaintiffs' counsel suggestions for changes to the stipulation, nor have I received plaintiffs' contentions or points and authorities.

I DECLARE, under penalty or perjury, that the foregoing is true and correct and that this declaration was executed this 28th day of February, 1986, in Washington, D.C.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

**ORDER TO COMPEL PLAINTIFFS TO PRODUCE
DOCUMENTS AND TO PAY DEFENDANTS' EXPENSES
AND ATTORNEYS' FEES**

Upon consideration of the Motion to Compel Production of Documents filed by defendants and counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin to compel plaintiffs and counterdefendants Columbia Pictures Industries, Inc., *et al.* to produce all documents requested in defendants' January 7, 1985 Request for Production of Documents, the parties' contentions on the issues, and arguments of counsel, it is hereby

ORDERED that:

(1) Plaintiffs produce the documents requested in defendants' Request for Production of Documents Nos. 1 and 20-39 on or before _____, 1986 at the law offices at Michael J. Dennis Law Corporation, 510 West Sixth Street, Suite 910, Los Angeles, California;

(2) Plaintiffs pay defendants' reasonable expenses and attorneys' fees incurred in connection with this motion and defendants' prior motion to compel; and

(3) Defendants submit to this Court, within 20 days of the date of this Order, an application for its reasonable expenses and attorneys' fees incurred in connection with this motion, the prior motion to compel, and the Rule 7.15.1 meeting of counsel.

Dated: _____

William P. Gray
United States District Judge

Respectfully Submitted,

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW
CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

Dated: March 3, 1986 By: Laura J. Barnes

Jeffrey W. King
Attorneys for Defendants/
Counterclaimants

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIMS

MEMORANDUM OF POINTS AND AUTHORITIES IN
OPPOSITION TO DEFENDANTS' AND
COUNTERCLAIMANTS' MOTION TO COMPEL
PRODUCTION OF DOCUMENTS AND FOR EXPENSES
AND ATTORNEYS' FEES; DECLARATIONS IN SUPPORT
THEREOF

HRG. DATE: March 24, 1986

TIME: 10:00 A.M.

COURTROOM: 23

[Table of Contents omitted in this printing]

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I.

INTRODUCTORY STATEMENT

Defendants have established a pattern of bringing premature and ill-conceived discovery motions. Plaintiffs submit that defendants' only purpose in bringing this motion is to try again to obtain the sanctions denied them by this Court the first time they brought a motion to compel the production of the documents here at issue.

Defendants brought the first motion without even attempting to discuss the discovery issues with plaintiffs' newly retained counsel. This Court did not rule on the first motion, but instructed all counsel to work together to resolve the disputes. Defendants' counsel asked the Court if they could renew their motion for sanctions at a later date. In retrospect, it appears that from that time defendants' have been seeking sanctions, not documents.

In this motion, defendants have enormously exaggerated the dimensions of the remaining disputes and have seriously mischaracterized the role of plaintiffs and their counsel in attempting to resolve them. Defendants would have this Court believe that plaintiffs have refused for a year, and continue to refuse, to produce all but six documents responsive to defendants' document request. Nothing could be further from the truth. Plaintiffs have: (1) already produced almost 900 pages of documents responsive to defendants' requests relating to plaintiffs' copyright claim (as admitted by defendants' production of documents responsive to the antitrust cross-complaint has been held in abeyance by agreement of counsel), and agreed to produce many more as soon as a protective order is entered; (2) diligently attempted to negotiate an acceptable protective order; (3) attempted to negotiate with defendants to narrow what this Court has recognized are overly broad and burdensome requests; (4) agreed to produce documents responsive to all requests as eventually narrowed by defendants, with certain necessary and proper limitations;

and (5) agreed to produce all appropriate documents within a reasonable period of time, should plaintiffs not prevail in their pending motion to stay all proceedings.

When defendants filed this motion to compel, thereby bringing to an abrupt halt the parties' ongoing discovery discussions, plaintiffs had agreed to most of defendants' revised demands. Even the *revised* demands, however, still request the production of tens of thousands of irrelevant documents. Defendants' lawsuit involves only one issue: the rental of videodiscs and tapes by hotels and motels to their guests for in-room viewing. [In fact, defendants' pleadings are limited to the rental of videodiscs by defendants at defendants' hotel.] Even as narrowed, defendants' requests seek the production of all documents in plaintiffs' possession relating to the video industry *as a whole*. In addition, they ask for sensitive communications regarding plaintiffs' litigation and lobbying activities on all issues affecting the video industry. Despite what defendants might like the Court to believe, the discoverability of these documents constitutes the crux of the remaining document disputes between the parties, apart from one open issue regarding a protective order.

II.

FACTUAL BACKGROUND

Defendants are owners of the La Mancha Private Club and Villas, a hotel located in Palm Springs, California. Plaintiffs are eight major motion picture studios. Defendants equip their hotel rooms with videodisc machines and offer their guests the opportunity to rent from defendants videodiscs of plaintiffs' motion pictures. On April 25, 1983, plaintiffs filed a copyright action against defendants alleging that their rental activities constituted the authorization of public performances of plaintiffs' copyrighted works. Defendants counterclaimed, alleging that plaintiffs had violated the Sherman Antitrust Act, pri-

marily by filing the copyright action against them and also by some alleged refusal to grant them licenses to rent videodiscs to hotel guests.

In December, 1985, this Court granted defendants' motion for summary judgment on plaintiffs' copyright claim. After extensive oral argument, the Court held that defendants' activities did not violate plaintiffs' exclusive public performance rights in their copyrighted works. That ruling is now on appeal.

Prior to bringing the motion for summary judgment, defendants embarked on extensive discovery with regard to both plaintiffs' copyright claim and their own counterclaim. Plaintiffs provided defendants with documents responsive to various requests, but were in initial disagreement over the extent to which many of defendants' requests were proper. They had, however, worked out most of their disputes, and were continuing to attempt to narrow the issues, when defendants filed this motion to compel. Because defendants' motion drastically mischaracterizes the history of the discovery in this case to make plaintiffs appear guilty of obstructionism and bad faith, plaintiffs shall offer an accurate account of the events leading up to this (largely unnecessary) motion before discussing their few remaining objections to the revised discovery requests.

In August, 1985, present counsel substituted into this matter as attorneys of record for plaintiffs.¹ Defendants filed a motion to compel the production of documents on

¹ Although it does not appear to plaintiffs to be relevant, defendants have set forth their version of the events that transpired in this action before present counsel was retained. Because present counsel have no first hand knowledge of such facts and because such facts were thoroughly reviewed for this Court in the Memorandum of Opposition to defendants' prior motion to compel, plaintiffs incorporate by reference herein such Memorandum of Opposition and its supporting declarations, and attach hereto a copy for the Court's convenience.

August 13, 1985 and proceeded with their motion without attempting to discuss the disputes with new counsel.

Before present counsel substituted into the action various documents had been produced by prior counsel. Present counsel immediately began preparing to produce all remaining documents that plaintiffs had agreed to produce. On September 12, 1985 a proposed protective order was sent to Jeffrey King, defendants' lead counsel, with a letter informing him that copies of many documents would be produced for him upon his signing of the proposed stipulated order. Mr. King informed plaintiffs' counsel that he required changes in the proposed order, and all counsel agreed to discuss it after the hearing on the motion to compel documents scheduled for September 18, 1985.

At the hearing, Mr. King was given a letter dated September 18, 1985 which enclosed a list of approximately 120 multi-page documents responsive to Requests Nos. 1, 2-5, 7, 8-9, 11, 12, 13-16, 22 and 40 which plaintiffs' counsel agreed to produce to Mr. King as soon as a stipulation for a protective order had been entered into.

The Court made no ruling with respect to the motion to compel documents. Instead, with regard to the document requests relating to the antitrust counterclaims (the requests that are the subject of the instant motion), this Court advised defendants' counsel that the requests should be narrowed, and asked all counsel to cooperate in resolving the disputes.²

After the hearing, counsel discussed at length the unresolved discovery issues and the proposed protective order. Counsel agreed to hold the antitrust discovery requests in abeyance until after this Court's decision on the cross-motions for summary judgment on the copyright claim,

² See transcript of hearing of September 18, 1986, the relevant pages of which are attached hereto for the Court's convenience as Appendix 2.

which were heard and decided by this Court on December 16, 1985.

On January 6, 1986, counsel began discussing the requests at issue in this motion. Plaintiffs' counsel indicated that plaintiffs believed all proceedings in the action should be stayed until resolution of the appeal of the summary judgment on the copyright claim, and asked if defendants would agree to such a stay. Defendants agreed to consider the matter and to give plaintiffs their answer during the conversation they scheduled for January 15, 1986 (which was rescheduled for January 23, 1986 due to plaintiffs' counsel's illness). Defendants' asked that plaintiffs in the meantime attempt to narrow defendants' document requests. Plaintiffs proceeded to devote substantial amounts of time to revising defendants' exceedingly overbroad original requests.

On January 23, 1986, defendants' counsel stated that defendants would not agree to a stay of all proceedings but suggested that they might agree to postpone filing any motion to compel documents until after plaintiffs' motion to stay had been heard and decided. Plaintiffs' counsel agreed to continue the process of narrowing the requests in order that the categories of documents to be produced would be agreed upon should the Court determine that proceedings on the counterclaim should go forward.

During the conversation on January 23, 1986, plaintiffs presented their proposed reformulation of the requests. Defendants' counsel dismissed plaintiffs' proposals without discussion. He instead orally suggested revisions which consisted of a total of seven proposed requests (hereinafter "defendants' revised requests").

After plaintiffs' requested for written confirmation of defendants' revised requests, defendants sent a list of their revised requests to plaintiffs' counsel by letter of January 29, 1986. Throughout the next week, defendants' counsel, Patrick Coyne, repeatedly telephoned and wrote to

plaintiffs' counsel, Maren Christensen, demanding to know plaintiffs' positions with regard to the revised requests. By letter of February 4, 1986 Mr. Coyne stated that if he had no response by February 7, 1986 he would be forced to conclude that plaintiffs were not willing to comply with defendants' document requests and that plaintiffs were unwilling to provide the information necessary to prepare a stipulation for a motion to compel discovery. In response to Ms. Christensen's letter of February 6, 1986 stating that her clients were working expeditiously to narrow the requests as the Court had ordered, Mr. Coyne stated in his letter of February 7, 1986 that "[defendants] are under no obligation to narrow the requests."

On February 7, 1986, defendants' counsel telephoned plaintiffs counsel and asked whether plaintiffs were willing to waive any of the objections in the response to the document requests they had filed a year earlier. Plaintiffs' counsel were surprised by the question. Plaintiffs had been focusing their attention on defendants' *revised requests* and did not think that the original requests or the original objections were relevant to their negotiations. Rather, they stated that they believed that the plaintiffs' response to defendants' revised requests, which defendants would soon have, would settle the disputes. Defendants' counsel pressed plaintiffs' counsel to state whether or not they were ~~willing~~ to waive any of their original objections at that time. Plaintiffs' counsel responded that since they had not reviewed or discussed such objections in many months they were not prepared to waive anything during that conversation.

It is clear now that defendants were preparing to file a motion to compel documents even before they received plaintiffs' response to their revised requests, and that such motion would characterize the dispute as it was before the negotiations began (i.e., defendants' original requests and plaintiffs' original responses).

On February 11, 1986, eight business days after plaintiffs' counsel received defendants' written revised requests, plaintiffs telecopied a letter to defendants in which plaintiffs agreed as follows to substantially all of defendants revised requests:³

Request No. 1

Defendants requested that their counsel review copies of all license agreements for the manufacture and distribution of videodiscs and tapes, and copy those portions that were agreed to be relevant and not confidential. Any disagreements would be submitted to the Court. Plaintiffs agreed to produce such documents on that basis.

Request No. 2

Defendants requested all MPAA⁴ documents relating to rental of videodiscs or tapes.

Defendants at first agreed that these documents would be restricted to those relating to hotels and motels. They then said this would be a "first cut only."

³ For the Court's convenience, Appendix 1 to this Memorandum contains the following information, organized according to each request.

1. Defendants' revised requests, as confirmed in a letter to Patrick Coyne from Maren Christensen dated January 27, 1986;
2. Defendants' revised requests as confirmed by Mr. Coyne in his letter of January 29, 1986; and
3. Plaintiffs' response to defendants' revised request as stated in Ms. Christensen's letter of February 11, 1986.

⁴ The MPAA is a trade association whose members are motion picture distributors and/or producers. MPAA's activities consist, in large part, of: (1) lobbying and related means of expressing its views to state and federal legislatures, administrative agencies, and other governmental bodies; and (2) engaging in litigation concerning broad issues of general concern to the motion picture industry (e.g., censorship, piracy, and cable television issues).

Plaintiffs offered all MPAA generated documents in plaintiffs' files that relate to rental of videodiscs or tapes to hotel and motel guests that are not protected by the *Noerr-Pennington* doctrine.

Request No. 3

Defendants requested all protest letters and complaints protesting the rental of videodiscs or tapes.

Plaintiffs offered all such documents relating to the rental of videodiscs or tapes at hotels or motels.

Request No. 4

Defendants requested all communications regarding defendants.

Plaintiffs agreed to produce all such non-privileged communications not protected by the *Noerr-Pennington* doctrine.

Request No. 5

Defendants requested copies of all press releases, warnings and advertisements generated by the MPAA or by plaintiffs published in magazines to protest the unauthorized use of videodiscs and tapes.

Plaintiffs agreed to produce samples of any such documents in their possession regarding use in hotels and motels.

Request No. 6

Defendants requested all communications between the parties and their licensees relating to restrictions on the sale of videodiscs and tapes to all entities that rent them.

Plaintiffs offered such documents regarding the sale or resale of videodiscs or tapes to hotels or motels.

Request No. 7

Defendants requested samples of plaintiffs' home viewing labels and the F.B.I. labels and symbols, and communications relating thereto.

Plaintiffs offered all such non-privileged documents except as they are protected by the *Noerr-Pennington* doctrine.

The Proposed Protective Order.

With respect to the proposed protective order, defendants suggested that plaintiffs' confidential documents not be shown to anyone affiliated with plaintiffs engaged in the business of videodisc or videotape production or distribution until plaintiffs had the opportunity to apply to this Court for an order disallowing such disclosure. Plaintiffs agreed with defendants' proposal except proposed that they should have the opportunity to ask this Court to exclude all persons affiliated with any entity in the business of videodisc or videotape production or distribution, not just those affiliated with one of the plaintiffs (i.e., persons affiliated with competitors or potential licensees of plaintiffs would not be shown plaintiffs' confidential documents without giving plaintiffs the chance to apply to this Court for an order excluding such persons).

Plaintiffs' Proposed General Limitations.

In plaintiffs' February 11, 1986 letter plaintiffs suggested a reasonable time period regarding the documents required to be produced. Since acts before February 1, 1980 would be time-barred, plaintiffs proposed that their search and production include documents generated between February 1, 1980 and February 1, 1984.

Plaintiffs also proposed restricting the search to plaintiffs' home office files since it is highly unlikely that any of the requested documents would be found in the thousands of branch offices whose files it would be very burdensome and time-consuming to search.

Plaintiffs refused to produce any documents protected by the attorney-client privilege, the attorney work-product doctrine, or the *Noerr-Pennington* doctrine, but agreed to produce a list of all documents withheld on such grounds and all information necessary to determine if such claims were appropriate.

The Issue In Dispute.

Thus, as of February 11, 1986, the open issues were narrowed to the following:

(1) Should the categories requesting (a) documents generated by the MPAA relating to the rental of videodiscs and tapes, (b) cease and desist and other protest letters and complaints protesting rental of videodiscs and tapes, (c) communications between the parties and their licensees regarding restrictions on the sale of videodiscs and tapes, and (d) press releases, warnings, and advertisements published in magazines by the MPAA or by plaintiffs protesting the unauthorized use of videodiscs and tapes, be restricted to documents relating to hotels and motels, or should plaintiffs be required to search for and produce such documents with respect to all areas of the videodisc and videotape industry?

(2) Are any otherwise responsive communications regarding legislative and judicial activities of the plaintiffs protected from discovery in this action by the *Noerr-Pennington* doctrine?

(3) Should plaintiffs have the opportunity to apply to this Court for an order disallowing plaintiffs' competitors and potential licensees, and others in the videodisc or videotape industry, from viewing plaintiffs' confidential documents?

Defendants' Efforts To Expand Their Revised Requests.

On February 12, 1986 counsel again discussed the requests by telephone. During that discussion defendants'

counsel indicated that he was no longer satisfied with defendants' revised requests and wanted the following changes:

Request No. 1: Defendants were no longer interested in simply *viewing* plaintiffs' unredacted license agreements, but instead wanted to copy all of the highly confidential financial information contained therein. Plaintiffs could not agree to this as this information was totally irrelevant to defendants' counterclaims and its disclosure would be very prejudicial to plaintiffs;

Request No. 2: Defendants wanted not only documents generated by the MPAA, as originally requested, but also documents generated by plaintiffs' and sent to the MPAA;

Request No. 5: Defendants wanted the term "published in magazines" changed to "published or otherwise distributed" and the word "unauthorized" deleted.

Mr. Coyne was told that the requested changes would be taken up with plaintiffs as quickly as possible. He responded that he could not promise to wait until the remaining issues were resolved before filing a motion to compel production of documents. Two days later, on February 14, 1986, a proposed stipulation of issues pursuant to Rule 17.15.2 was delivered to plaintiffs' counsel.

Defendants' Proposed Rule 17.15.2 Stipulation.

Defendants' proposed stipulation inaccurately reflected plaintiffs' positions on many issues, described disputes over issues that plaintiffs' current counsel had never discussed with defendants' counsel (e.g., the situs of the production), made still further changes in the document requests (e.g., for the first time included "competitors" in Request No. 6), and inaccurately described the history of the discovery disputes (e.g., stating that plaintiffs were required to produce the documents at issue more than a year ago when in fact all counsel had been ordered by this Court to work together to resolve the disputes and had agreed not to

begin to do so until after the decision on the motions for summary judgment, and did not actually begin their negotiations until January, 1986).

After several lengthy and unproductive telephone calls with defendants' counsel in an attempt to revise the proposed stipulation to reflect the true nature of the issues and documents in dispute, plaintiffs' counsel, on February 28, 1986, informed defendants' counsel that it appeared impossible to prepare a stipulation over the telephone, but that she would provide him with plaintiffs' written contentions and authorities for inclusion in the joint statement by March 7, 1986. She suggested that the hearings on all motions before this Court be continued, if necessary, to allow counsel sufficient time to prepare a joint stipulation. Defendants' counsel did not wait for plaintiffs' input, but instead filed this motion on March 3, 1986. It all but ignores the efforts of plaintiffs' counsel over the past several months to resolve the disputes.

III.

PLAINTIFFS HAVE OFFERED TO PRODUCE ALL RELEVANT DOCUMENTS RESPONSIVE TO DEFENDANTS' REVISED REQUESTS

Defendants' revised requests seek irrelevant documents in that they seek all documents relating to the videodisc and videotape industry as a whole; they seek documents relating to plaintiffs' legislative and judicial activities that are protected by the *Noerr-Pennington* doctrine, they seek confidential financial information contained in plaintiffs' licensing agreements, and they seek documents outside any time period relevant to this action.

A. Only Documents Regarding The Use Of Videos By Hotel And Motel Guests Are Relevant To Defendants' Claims.

Among their requests, defendants' have requested (1) all MPAA documents in plaintiffs' files relating to the rental

of videodiscs and videotapes; (2) all protest letters, complaints, etc. protesting the rental of videodiscs and videotapes; (3) all press releases, warnings, and advertisements, placed in magazines by the MPAA or by plaintiffs protesting the unauthorized use of videodiscs and videotapes; and, (4) all communications between the parties and their licensees regarding restrictions on the sale of videotapes or videodiscs to any entity that rents them. Unless these four categories are restricted to documents relating to the sale or rental by hotels and motels of videodiscs and tapes, each of the plaintiffs would have to search thousands of files and produce tens of thousands of documents that are totally irrelevant to defendants' antitrust claims.

From a review of defendants' cross-complaint and Memorandum it appears that their antitrust claims are twofold:

1. That plaintiffs have filed this copyright action which is alleges to be a sham; and
2. That plaintiffs have boycotted and concertedly refused to grant licenses to defendants to rent videodiscs and tapes to hotel guests in order to "maintain a monopoly over the distribution of motion pictures to hotels and resorts."

Although defendants are allowed broad discovery on the claims that they have stated, they are not entitled to discovery merely to determine whether or not additional, unasserted claims might exist. [While] a plaintiff is entitled to the fullest opportunity to adduce evidence in support of the cognizable claims set out in his complaint, he is not entitled to discovery for the purpose of determining whether or not there may be a factual basis for a claim he has not made. *Cohen v. Illinois Institute of Technology*, 524 F.2d 818, 327 (9th Cir. 1975), cert. denied, 425 U.S. 943, 96 S.Ct. 1683, 48 L.Ed.2d 187 (1976).

In their Memorandum defendants have shown conclusively that no documents other than those relating to hotel

and motel rental of videodiscs and tapes could possibly be relevant to their counterclaims. On page 16, lines 14-16 of their Memorandum, defendants purport to explain the basis of their antitrust claims. They allege that plaintiffs have undertaken to "maintain a monopoly over the distribution of motion pictures to hotels and resorts." They allege that plaintiffs license their motion pictures for transmission to hotel rooms, generally through a television cable system, and that in order to protect this business plaintiffs have attempted to restrict rental of videodiscs and tapes for in-room viewing. Defendants list various activities that plaintiffs have allegedly engaged in as a part of this alleged conspiracy to monopolize the viewing of motion pictures in hotel rooms, and state that these alleged activities "constitute a conspiracy to restrain trade in the marketing of videos to hotels and resorts . . . and an attempt and a conspiracy to monopolize the movie market in hotels and resorts . . ." (Defendants' Memorandum page 17, lines 11-15).

Thus, as stated by defendants themselves, their antitrust claims are limited to plaintiffs' alleged attempt to constrict the rental of videodiscs and videotapes for in-room viewing by hotel guests. Broadening the required search and production beyond that to include documents involving all aspects of the video industry would be unduly burdensome and would not produce relevant documents or documents reasonably calculated to lead to the discovery of admissible evidence. For example, defendants have requested all documents to or from the MPAA relating to the rental⁵ of videodiscs and tapes. This would include at least tens of thousands of documents regarding, among other things,

⁵ Defendants' revised requests concerned the "rental" of such tapes and discs. In Section IV of their Memorandum defendants have attempted to broaden this request to include rental, use or sale of the tapes and discs. This would involve millions of documents on every aspect of the video industry.

retail video stores; tape piracy; off-the-air recording; legislative efforts regarding the "first sale doctrine;"⁶ the profit participation of writers, directors, etc. in the rental of videodiscs and tapes; use of tapes in commercial broadcasts, pay cable networks, syndication, schools, prisons, commercial airlines, and a myriad of other issues and uses that have no relation whatsoever to defendants' claims regarding viewing movies in hotel rooms. There is absolutely no basis for putting plaintiffs through such a useless, time consuming and enormously expensive search.

The party seeking discovery has the burden of demonstrating its merits. *Clark v. Universal Builders, Inc.*, 501 F.2d 324, 340 (7th Cir.), cert. denied, 419 U.S. 1070, 95 S.Ct. 657, 42 L.Ed.2d 666 (1974). Defendants' only attempt to show relevancy of documents other than those relating to hotels and motels is their inaccurate and misleading characterization of a conversation with plaintiffs' counsel. Patrick Coyne asked Maren Christensen whether plaintiffs' license agreements with RCA made any specific mention of the hotel/motel videodisc rental market. She stated that she was not aware of a distinction regarding hotels and motels in any license agreements with RCA for the manufacture and distribution of videodiscs, and that plaintiffs would produce all license agreements for home video, rather than limit production to agreements (if any) mentioning hotels and motels. This conversation has been twisted into an alleged statement that "plaintiffs make no distinction between hotels and motels and other sections of the rental market." (Defendants' Memorandum page 26, lines 17-19).

⁶ This issue regards legislative efforts concerning the right of copyright holders to participate in rental royalties of videodiscs and videotapes subsequent to their first sale.

B. Certain Of The Documents Requested Are Protected By The Noerr-Pennington Doctrine.

Among their revised requests, defendants continue to insist that plaintiffs produce all documents: (1) generated by the MPAA relating to the video rental industry as a whole; (2) reflecting communications of and among plaintiffs regarding defendants; and (3) relating to plaintiffs' home viewing labels and FBI labels. As previously discussed, the majority of these documents should be protected from discovery by the Court simply on the ground that, to the extent that they do not relate to the rental of movies in hotels and motels, they could have no possible bearing on defendants' antitrust claims and would cause plaintiffs an overwhelming burden involving the production of many thousands of irrelevant documents.

These three requests must be narrowed for still another reason: they would require plaintiffs to produce documents reflecting their efforts to lobby or petition for a change in laws affecting the video industry or to bring about similar changes by way of the courts. Because production of these documents would create a severe "chilling effect" on plaintiffs' constitutionally protected activities, the First Amendment considerations regarding discovery of these documents are profound.

As discussed below, the case law requires that defendants make a strong showing of relevancy to justify such intrusive discovery. In this case, defendants clearly have not met their burden. Rather, they have sought to shift the onus to plaintiffs by asserting that plaintiffs have waived any supportable objections to producing documents disclosing their constitutionally protected activities and communications. Defendants also argue that there exists no absolute privilege against production of documents relating to First Amendment activities.

As for plaintiffs' alleged waiver, defendants admit that plaintiffs have objected to each of the requests at issue

on the grounds of relevancy. Plaintiffs' basis for seeking protection against production of these sensitive documents is that defendants cannot make an adequate showing of relevancy to justify their disclosure. While courts require a strong showing of relevancy where First Amendment considerations are at stake, defendants have not even attempted to show the relevancy to their antitrust counterclaims of the documents specifically related to plaintiffs' and the MPAA's legislative and judicial activities.

1. Documents Reflecting Judicial Activity.

As previously discussed, defendants' claim that plaintiffs brought a "sham" copyright lawsuit against them. The determination of whether or not defendants are entitled to MPAA documents reflecting plaintiffs' communications with the MPAA regarding litigation with respect to the video rental industry depends on whether these documents are relevant to proving defendants' allegation that plaintiffs' copyright action against them is a "sham."

In interpreting the antitrust laws, the Supreme Court has held that the Sherman Antitrust Act was not designed or intended to restrict the rights of individuals to act together to invoke governmental processes, including the judicial system. Thus, parties with common interests are free to combine to "use the channels and procedures of state and federal agencies and courts to advocate their causes and points of view respecting resolution of their business and economic interests *vis-a-vis* their competitors" without fear of antitrust liability. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 511, 92 S.Ct. 609 (1972); *United Mine Workers of America v. Pennington*, 381 U.S. 657, 85 S.Ct. 1585 (1965); *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 81 S.Ct. 523 (1961). This so-called Noerr-Pennington doctrine protects the rights guaranteed under the First Amendment to petition the government, including redress of grievances in the courts "regardless

of intent or purpose." *Pennington*, *supra*, 381 U.S. at 670. The protection from antitrust liability applies even when the goals underlying joint activity are anti-competitive. *Pennington*, *supra*, 381 U.S. at 670; *Noerr*, *supra*, 365 U.S. at 139.

Under the *Noerr-Pennington* doctrine, activities to induce lawful action by the government are generally immune from antitrust liability. Excluded from such protection, however, is activity which constitutes a "sham." As stated recently by the Ninth Circuit in *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1413 (9th Cir. 1984):

"The general rule is that petitions to induce lawful government action are immune from attack under the antitrust laws. *Noerr*, 365 U.S. at 135-136, 81 S.Ct. at 528-529; *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1251 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227, 103 S.Ct. 1234, 75 L.Ed.2d 468 (1983). The immunity can be lost, however, if such steps are a mere sham, undertaken solely to interfere with free competition and without the legitimate expectation that such efforts will in fact induce lawful government action. *Noerr*, 365 U.S. at 144, 81 S.Ct. 533."

Because the *Noerr-Pennington* doctrine is intended to protect the First Amendment right to petition the government, the "sham" exception is construed very narrowly. *California Motor Transport Co.*, *supra*, at 510. To prove an antitrust violation based on judicial activities, a plaintiff must, at the least, prove that a defendant's lawsuits were "knowingly baseless." *Clipper Express*, *supra*, 690 F.2d at 12156, n. 25 ["[T]he constitutional guarantee of the right of petition which underlies *Noerr-Pennington* immunity protects only legitimate suits and not sham litigation, whether that litigation consists of one knowingly

baseless complaint or many.']; *Omni Resource Development Corp. v. Conoco, Inc.*, *supra*, 739 F.2d at 1414 ["A finding of sham requires *not only that the suit is baseless*, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anti-competitive (emphasis added)"]. As stated by the court in *Clipper Express*, the controlling factor in determining whether or not the "sham" exception applies to a given lawsuit or series of lawsuits is "whether the evidence shows that the claim or claims filed constitute an abuse of process." 690 F.2d at 1257, n. 25.

When the main action is an intellectual property infringement case, a defendant who brings a counterclaim for antitrust violations based on the infringement action must make an especially strong showing of plaintiff's bad faith in bringing the lawsuit before such a lawsuit can constitute a "sham" under *Noerr-Pennington*. Otherwise, the "fear of the vexations or punitive consequences of treble-damage suits" might kill legitimate patent, copyright and trademark enforcement efforts. *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 996 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) [higher standard necessary for antitrust counterclaim in patent litigation]; *Caplan v. American Baby, Inc.*, 582 F.Supp. 869, 897 (S.D.N.Y. 1984) [copyright]. In ruling on a motion to dismiss, the court in *W. Goebel Porzellanfabrik v. Action Industries, Inc.*, 589 F.Supp. 763, 767 (S.D.N.Y. 1984), noted:

"[L]awsuits have only rarely been treated as part of an antitrust conspiracy. Where the holder of a valid copyright brings suit in good faith and based on reasonable grounds, '[w]hatever other anticompetitive activity the [copyright holder] may be guilty of, the [copyright laws] would seem to authorize him to bring such a non-frivolous suit.'"

Only if the suit is brought in bad faith, i.e., as a "sham," can antitrust liability ever attach. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 92 S.Ct. 609 (1972). In *Overman v. Loesser*, 205 F.2d 521, 524 (9th Cir. 1953), *cert. denied*, 346 U.S. 910, 74 S.Ct. 241, the court found that the copyright action had been instituted in good faith where the principle question before the court presented a complex issue of law.

Defendants, by their own admissions, would be hard pressed to devise an argument as to how plaintiffs' documents might show that plaintiffs brought their action in bad faith. To the contrary, defendants' proposed findings of fact and conclusions of law on their Motion for Summary Judgment included a finding, which was subsequently entered by the Court, that the complex issue presented by the copyright complaint "is one of first impression." To apply the sham exception to an intellectual property action asserting novel and complex theories, and thereby subject plaintiffs to the threat of treble damages, would "chill" the good-faith efforts of plaintiffs to obtain redress in the courts.

Defendants' inability to show the relevancy to their antitrust claims of documents relating to MPAA's and plaintiffs' various and wide-ranging litigation efforts militates against the compelling of the production of these documents for a second, although related, reason. Only "relevant" documents are subject to discovery. Fed.R.Civ.P. 25(b)(1). Since the *Noerr-Pennington* doctrine is a reflection of First Amendment principles, courts place a heavy burden on parties to show that the discovery they have requested is "relevant." If a party cannot meet that burden, the balance shifts in favor of the First Amendment protections and the discovery will not be compelled.

Defendants have not even alluded to any basis on which documents relating to MPAA and plaintiffs' litigation activities could possibly be relevant to their antitrust coun-

terclaim. Instead, defendants seem to believe that they do not have to make such a showing because, according to them, the *Noerr-Pennington* doctrine does not apply to discovery. Such a position is completely erroneous.

Even in *North Carolina Electric Membership Corp. v. Carolina Power and Light Co.*, 666 F.2d 50 (4th Cir. 1981), which is the case relied on by defendants in support of their erroneous proposition, the court stated that, in order to be discoverable, *Noerr-Pennington* material must be calculated to lead to admissible evidence. 666 F.2d at 53 n. 6. Subsequent to that decision, the court in *Australia/Eastern U.S.A. Shipping Conference Etc. v. U.S.*, 537 F.Supp. 807 (D.D.C. 1982), held that the *Carolina Power* case did not mean that the harm to first amendment values attendant upon forced disclosure of *Noerr*-protected conduct should not be weighed against the interests favoring disclosure. 537 F.Supp. at 809.

In *Australia/Eastern*, the Justice Department, in connection with an antitrust investigation, sought documents related to *Noerr*-protected activities. Holding that the government had not made an adequate showing of relevancy to warrant the production, the court cited a long litany of cases, including several Supreme Court cases, which require the harm to First Amendment values attendant upon disclosure to be balanced against the governmental, or in the case of civil discovery, private, need for information. It characterized the "overwhelming weight of authority" as holding that forced disclosure of First Amendment activities causes a "chilling effect" against which the interests of obtaining information must be weighed.

2. Documents Relating To Legislative And Lobbying Activities.

Defendants have also requested documents related to plaintiffs' and MPAA's extensive legislative and lobbying activities. The *Noerr-Pennington* doctrine protects from an-

titrust liability the rights of groups with common interests to advocate their causes and points of view to both courts and state and federal agencies. *California Motor Transport Company, supra*, 404 U.S. at 511.

Disclosure to defendants of documents relating to plaintiffs' and MPAA's lobbying activities would cause a severe "chilling effect" on their communications among each other and their ability to present effective arguments to state and federal legislative and administrative bodies. The confidentiality of MPAA's strategies and positions with respect to pending legislation, and with regard to proposing new bills and rules, is of paramount importance to MPAA's effective lobbying and advocacy regarding legislation. The knowledge that views communicated between the MPAA and its members might be subject to involuntary disclosure would "chill" the free flow of ideas regarding controversial (or simply confidential) matters. Furthermore, if those entities advocating opposing positions were to receive sensitive information regarding the specific views and arguments MPAA planned to present to state and federal legislative and administrative bodies and agencies, in addition to its rationale for adopting particular methods and approaches, the MPAA would be strategically disadvantaged and its efficacy in the legislative arena irreparably harmed. The mere expectation of such an occurrence would prevent the free flow of ideas between MPAA and plaintiffs and severely inhibit what are presumed to be confidential discussions and communications. Moreover, courts have recognized the *inherent* "chilling effect" on privileged communications and activities which automatically follows forced disclosure of *Noerr*-related conduct and against which the interest in obtaining any such information must be weighed. *See, Australia/Eastern, supra*, 537 F.Supp. at 810.

Not only have defendants failed in their Memorandum to show any interest whatsoever in obtaining the information relating to plaintiffs' and MPAA's lobbying efforts,

but a review of their pleadings reveals that their antitrust allegations against plaintiffs have absolutely nothing to do with plaintiffs' or the MPAA's activities before state and federal legislatures. Thus, plaintiffs' privacy interest *must* be considered paramount.

The district court in *Adolph Coors Co. v. Wallace*, 570 F.Supp. 202, 205 (N.D.Cal. 1983), in reversing a Magistrate's ruling in a civil discovery matter which ordered a defendant to answer interrogatories, subject to a protective order, on the ground that the Magistrate erroneously rejected defendants' claims of constitutional privilege, stated:

"A good-faith interjection of First Amendment privilege to a discovery request however, mandates a comprehensive balancing of the plaintiffs' need for the information sought against the defendants' constitutional interests in claiming the privilege. This balancing is of paramount importance"

Citing Supreme Court authority, the court in *Coors* explained that any interest in disclosure will be "relatively weak unless the information goes to 'the heart of the matter'." *Id.* at 208. Once a constitutional challenge for withholding the information has been asserted, the court "considering a private [litigant's] discovery request should demand a heightened showing of 'relevancy.'" *Id.*

Since defendants have not shown any relevance of the information regarding plaintiffs' and the MPAA's lobbying activities the plaintiffs' constitutional interests are clearly paramount. Therefore, under the *Noerr-Pennington* doctrine, and the first amendment principles underlying that doctrine, plaintiffs should not be required to disclose documents which would reveal their constitutionally privileged communications and activities.

C. Financial Information Contained In Plaintiffs' License Agreements Is Totally Irrelevant.

Defendants have reneged on their agreement with regard to the copying of the financial information contained in plaintiffs' license agreements. As can be seen from Appendix 1, defendants agreed that defendants' counsel would view totally unredacted copies of the license agreements and then would request copies of the provisions they deemed relevant. If plaintiffs' counsel agreed, copies would be made. If they disagreed, defendants would apply to this Court for an order. Plaintiffs considered all financial information totally irrelevant. In fact, this was a procedure suggested by *defendants'* counsel in September, 1985. Thus, plaintiffs were in agreement with *defendants'* terms, as evidenced by the letter of February 11, 1986 from plaintiffs' counsel.

On February 12, 1986, defendants' counsel changed the terms and insisted upon *copying* (instead of viewing) the financial terms. Plaintiffs' license agreements contain confidential business information (including, among other things, the royalty rates negotiated by each plaintiff with the various licensees who manufacture and distribute the videodiscs and tapes of plaintiffs' motion pictures), which is very sensitive and is irrelevant to defendants' counterclaims and not reasonably calculated to lead to the discovery of admissible evidence. Among other things, the disclosure of such information would enable plaintiffs' competitors to compete unfairly with plaintiffs, and would destroy plaintiffs' ability to negotiate effectively with their licensees and potential licensees.⁷

Defendants have made absolutely no showing of the relevancy of these financial terms to their antitrust claims. As previously stated, defendants' antitrust counterclaims

⁷ See, for example, Declarations of Bernard R. Sorkin and Ben Tenn filed herewith.

as stated in their Memorandum are: (1) that this is a sham lawsuit, and (2) that plaintiffs have concertedly refused to license defendants in order to monopolize the showing of movies to hotel guests. The financial aspects of plaintiffs' agreements with their licensees for manufacturing and distributing videodiscs and tapes could not possibly be relevant to either of these claims.

Defendants' attempt to show relevancy is neither cognizable nor credible. On page 17, lines 6-10 of their Memorandum, they stated that "[r]ecently, Irwin learned that plaintiffs may also discriminate among its [sic] licensees by charging different license fees to different distributors. Such discrimination may be used to punish distributors that sell to businesses that rent videos. Moreover, such price discrimination is by itself a violation of the antitrust law."

As a threshold issue, defendants have not alleged price discrimination. Their attempt to show relevancy is therefore not even cognizable. Once again, defendants are attempting to use discovery to determine if some unasserted claim may exist. Further, their vague allusion to some unspecified information from some unidentified source which purportedly leads them to believe that plaintiffs *may* charge different license fees to different distributors, and that this *may* be done "to punish distributors that sell to businesses that rent videos" is both groundless and illogical. Even if different plaintiffs have negotiated different financial terms with different manufacturers and distributors, this certainly would not constitute price discrimination,⁸ and defendants state absolutely no basis for believing that this could have anything to do with punishing distributors that sell to businesses that rent videos. If defendants are searching for evidence that plaintiffs are attempting to coerce their licensees not to sell videodiscs

⁸ 15 U.S.C. § 13(a). See generally, Hills, *Antitrust Advisor* §§ 4.05-4.07 (3 ed. 1985) (Price Discrimination).

to hotels or motels that might rent them to their guests, they should search the license agreements for such restrictions (these documents have been offered for viewing by defendants' counsel and search the communications between plaintiffs and their licensees for any restrictions on the ability of their licensees to sell videos to such hotel entities (these documents also have been offered). To pretend that defendants could find evidence of such a scheme in the financial terms of the licenses is on its face ridiculous. Even if differing license fees did constitute price discrimination, defendants, as "indirect purchasers," would have no standing to complain about such alleged discrimination. See *Illinois Brick Co. v. State of Illinois*, 431 U.S. 720, 97 S.Ct. 2061 (1977). Thus, the potential injury to plaintiffs from the revelation of this confidential information outweighs any possible benefits that defendants might legitimately derive from it in this action.

D. Documents Outside The Time Period February 1980-February 1984 Are Not Relevant.

Defendants have objected to plaintiffs' putting a limitation on the time period for the relevant documents. Defendants' request has no limiting period so that all documents generated from the beginning of time until the present would be called for. This is clearly unreasonable in that it would be extremely burdensome, and most of such documents would be irrelevant. Since any activities engaged in before February 1, 1980 would be barred by the applicable statute of limitations, plaintiffs have limited the document production to those generated after that date, and defendants have made no showing of the relevancy of any documents generated before that date. As stated by the court in *Klein v. Lionel Corporation*, 130 F.Supp. 725, 728 (D. Del. 1955), "Since the causes of action prior to December 29, 1951 are barred by the Statute [of Limitations] so, I think, interrogatories inquiring of events prior to that time need not be answered. There

can be no relevancy in matters which are not in issue or which have no bearing upon issues to be litigated."

E. Plaintiffs Should Be Required To Search Only Their Home Office Files.

Defendants further object to plaintiffs' proposal that they search their home offices for documents responsive to the requests. As was explained to defendants' counsel by telephone on February 12, 1986, many of the plaintiffs have branch offices in every city in the country and in most major cities of the world. In order to comply with a request that was not so narrowed, plaintiffs would have to search thousands of offices, which would be very expensive and time consuming. Plaintiffs have no reason to believe that any responsive documents would be found anywhere but their home offices, and defendants have suggested none. Thus, it would be unreasonable to force plaintiffs to search files other than those at their home offices.⁹

IV.

PLAINTIFFS HAVE ATTEMPTED IN GOOD FAITH TO NEGOTIATE A PROTECTIVE ORDER ACCEPTABLE TO ALL PARTIES.

From September, 1985 until the present the parties have been negotiating the terms of a stipulated protective order. When negotiations were broken off by the filing of this motion, the open issue was whether plaintiffs should have the opportunity to apply to this Court for an order excluding disclosure of plaintiffs' confidential documents to any expert affiliated with any entity engaged in the business of videodisc or videotape production or distribution.

Defendants have agreed not to disclose (without giving plaintiffs the opportunity of seeking an order disallowing

⁹ See, for example, Declarations of Bernard R. Sorkin and Ben Tenn filed herewith.

disclosure) any such documents to anyone affiliated with any plaintiff with respect to videodisc or tape production or distribution. They will not agree to refrain from disclosing such documents to anyone else in the business of videodisc and videotape production or distribution, including actual or potential competitors or licensees of plaintiffs. Allowing competitors or potential licensees access to, among other things, the deal points of plaintiffs' licenses would defeat plaintiffs' ability to effectively compete and to freely negotiate with potential licensees.

Courts often disallow the disclosure of a party's confidential information to its competitors when it would cause harm to the party. In *Triangle Ink. and Color Company, Inc. v. Sherwin-Williams Company*, 61 F.R.D. 634 (N.D. Ill. 1974), the court, in another case where licensing agreement prices were considered confidential commercial information, granted an "attorneys only" protective order and, in addition, allowed consultation by the plaintiffs' counsel "with independent experts regarding the privileged information provided the parties mutually agree as to the independent experts." *Id.* at 636. [Emphasis added.] See also, *Spartanics, Ltd v. Dynetics Engineering Corp.*, 54 F.R.D. 524 (N.D. Ill. 1972) ("attorney only" order for confidential documents). Plaintiffs are lodging with the Court a proposed protective order in accordance with their proposal.

V.

DEFENDANTS' REQUEST FOR SANCTIONS AND ATTORNEYS' FEES SHOULD BE DENIED. INSTEAD, PLAINTIFFS ARE ENTITLED TO AN AWARD OF EXPENSES AND ATTORNEYS' FEES INCURRED IN THEIR OPPOSITION TO DEFENDANTS' FRIVOLOUS MOTION.

Defendants' have been and continue to be more interested in obtaining sanctions than in obtaining documents.

As previously stated, plaintiffs and their counsel have cooperated fully in attempting to resolve these disputes. Nonetheless, defendants have done nothing but erect roadblocks to the settlement of these disputes.

The motion served almost totally ignores the real issues in dispute in order to attempt to convince this Court that plaintiffs have not cooperated in discovery. Defendants' moving papers and proposed order renew *all* of defendants' original document requests and list *all* of plaintiffs' original objections thereto. This has unnecessarily necessitated the expenditure of a great deal of time and money in opposing a motion that, if necessary at all, should have been directed only at the few narrow issues still open, and should have been brought by stipulation under the Local Rules instead of by extensive briefing in which defendants raised burdensome, erroneous, and extraneous issues, all of which plaintiffs have been forced to address in a similarly lengthy memorandum.

Despite barraging the Court with a rendition of all of defendants' original requests, as though they were somehow meaningful, defendants have acknowledged in Section IV of their Memorandum that the original requests have been narrowed. However, as evidenced in Appendix 1, which contains a history of the parties' negotiations, even the requests as set forth by defendants in Section IV are broader than defendants' revised requests. Plaintiffs' extensive briefing would not have been necessary if defendants had been forthright with the Court and confined their Memorandum to the actual status of the few open issues regarding defendants' revised requests.

VI.

CONCLUSION

For the foregoing reasons defendants' Motion to Compel the Production of Documents should be denied and sanctions should be assessed against defendants and their

counsel in the amount of the attorneys' fees expended by plaintiffs in opposing this Motion.

Dated: March 14, 1986

Respectfully submitted,

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
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By: /s/ Maren Christensen
Maren Christensen
Attorneys for Plaintiffs and
Counterdefendants

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIMS

**DECLARATIONS OF MAREN CHRISTENSEN,
BERNARD R. SORKIN AND BEN TENN IN OPPOSITION
TO DEFENDANTS' AND COUNTERCLAIMANTS'
MOTION TO COMPEL PRODUCTION OF DOCUMENTS
AND FOR EXPENSES AND ATTORNEYS' FEES**

Hearing date: 3/24/86

Time: 10:00 A.M.

Courtroom: 23

I, Maren Christensen, declare and say as follows:

1. I am an attorney at law duly licensed to practice in the State of California and before this Court and am a partner in the firm of Rosenfeld, Meyer & Susman, attorneys of record for plaintiffs herein.

2. Each and every fact stated herein is within my personal knowledge and if called as a witness I could testify competently thereto.

3. In or about August, 1985, my law firm was retained by the plaintiffs herein as their attorneys of record in this

action. At that time a dispute existed between the parties regarding the propriety of various of the document requests contained in "Defendants' and Counterclaimants' Request for Production of Documents Nos. 1 to 40," which is the subject of the instant motion to compel documents. I was informed by prior counsel that various documents responsive to the request had been produced and that plaintiffs had objected to the production of other documents on various grounds. I and others in my law firm began extensive efforts to gather and produce all documents that plaintiffs had agreed to produce but had not as yet produced.

4. On September 12, 1985 I sent a proposed protective order to Jeffrey King, defendants' lead counsel, with a letter informing him that copies of many documents would be produced for him upon his signing of the proposed stipulated order. Mr. King informed me by telephone that he required changes in the proposed order, and we agreed to discuss it after the hearing on the motion to compel documents scheduled for September 18, 1985.

5. The Court made no ruling with respect to the motion to compel documents at the hearing that took place on September 18, 1985. Instead, with regard to the document requests relating to the antitrust counterclaims (the requests that are the subject of the instant motion), this Court advised Mr. King that the requests should be narrowed, and asked all counsel to cooperate in resolving the disputes. (See pgs. 14-17 of transcript of hearing of September 18, 1986, attached to plaintiffs' Memorandum as Appendix 2).

6. Immediately after the hearing on September 18, 1985, I gave Mr. King a letter dated September 18, 1985 (attached hereto as Exhibit "1") which enclosed a list of approximately 120 multipage documents responsive to Requests Nos. 1, 2-5, 7, 8-9, 11, 12, 13-16, 22 and 40 which

plaintiffs' agreed to produce to Mr. King as soon as a stipulation for a protective order had been entered into.

7. During the afternoon of September 18, 1985, and on several other occasions thereafter, I discussed with Mr. King and Patrick Coyne, another of defendants' counsel, the unresolved discovery issues and the proposed protective order. We came to no agreement regarding the protective order. We agreed to hold the antitrust discovery requests in abeyance until after this Court's decision on the cross-motions for summary judgment on the copyright claim, which were heard and decided by this Court on December 16, 1985. Almost 900 pages of documents responsive to defendants' requests were produced before the hearing on the motions for summary judgment, some with plaintiffs' briefs (as agreed between counsel) and some under separate cover.

8. On December 31, 1985, Mr. Coyne attempted to reach me by telephone, apparently to discuss the antitrust discovery issues. When I attempted to return his call there was no response. I was then on vacation for several days, and returned to my office on January 6, 1986.

9. My partner Stephen Kroft and I telephoned Messrs. King and Coyne on January 6, 1986. During this conversation, Mr. Kroft indicated that plaintiffs believed all proceedings on the counterclaim should be stayed until resolution of the appeal of the summary judgment on the copyright claim, and asked if defendants would agree to such a stay. Mr. King agreed to consider the matter and to give plaintiffs an answer during the conversation they scheduled for January 15, 1986. Mr. King asked that plaintiffs attempt to narrow defendants' document requests regarding their counterclaims and present proposed revised requests on January 15, 1986. Plaintiffs proceeded to devote substantial amounts of time to revising defendants' exceedingly overbroad original requests.

10. As I was ill with the flu the week of January 15th, the next call was postponed until January 23, 1986. On January 23, 1986, I asked Mr. King if defendants would agree to stay all proceedings on the counterclaim. Mr. King stated that defendants would not agree to a stay of all proceedings but suggested that he would consider agreeing not to bring any motion to compel documents until after plaintiffs' motion to stay had been heard. I agreed that this would be an orderly way to proceed (as I believed that plaintiffs' motion to stay the proceedings would be granted), although I also agreed to continue with the process of narrowing the document requests as ordered by the Court. I then presented to Messrs. King and Coyne plaintiffs' proposals for narrowing defendants' document requests. Mr. King dismissed plaintiffs' proposals without discussion. He instead orally suggested revisions which consisted of a total of seven proposed requests (hereinafter "defendants' revised requests").

11. By letter of January 27, 1986, (attached hereto as Exhibit "2"), I confirmed these revised requests to Messrs. King and Coyne so that there would be no misunderstanding regarding their oral proposals. By letter of January 29, 1986, (attached hereto as Exhibit "3"), Mr. Coyne reconfirmed the revised requests to me.

12. Throughout the next week Mr. Coyne repeatedly telephoned and wrote to me demanding to know plaintiffs' positions with regard to the revised requests. By letter of February 4, 1986 (attached hereto as Exhibit "4"), Mr. Coyne stated that if he had no response by February 7, 1986 he would be forced to conclude that plaintiffs were not willing to comply with defendants' document requests and that plaintiffs were unwilling to provide the information necessary to prepare a stipulation for a motion to compel discovery. In response to my letter of February 6, 1986, (attached hereto as Exhibit "5") in which I stated that my clients were working expeditiously to narrow the requests as all parties had been instructed by the Court

to do, Mr. Coyne stated in his letter of February 7, 1986 (attached hereto as Exhibit "6") that "[defendants] are under no obligation to narrow the requests."

13. Also on February 7, 1985 Mr. Coyne telephoned me and my partner, William Billick, and asked whether plaintiffs were willing to waive any of the objections in the response to the document requests they had filed a year earlier. This surprised Mr. Billick and me because, as I told Mr. Coyne, plaintiffs had been focusing their attention on defendants' *revised requests* and did not think that the original requests or the original objections were relevant to the negotiations. Mr. Billick and I further informed Mr. Coyne that we believed that plaintiffs' response to defendants' revised requests, which he would receive by February 11, 1986, would settle the disputes. Mr. Coyne pressed us to state whether or not plaintiffs were willing to waive any of their original objections at that time. I responded that since I had not reviewed or discussed such objections in many months I was not prepared to waive anything on behalf of plaintiffs during that conversation.

14. On February 11, 1986, eight business days after I received defendants' written revised requests, I telecopied a letter to Mr. Coyne (attached hereto as Exhibit "7") in which plaintiffs agreed to substantially all of defendants' revised requests except for some necessary and proper limitations which are briefed in plaintiffs' memorandum in opposition to the instant motion.

15. On February 12, 1986 Mr. Coyne and I discussed my letter of February 11, 1986. During that discussion he indicated he wanted to make the following changes in defendants' revised requests:

Request No. 1: Mr. Coyne stated that defendants were no longer interested in simply *viewing* plaintiffs' undacted license agreements, as they had previously agreed but instead wanted to copy all of the highly confidential

financial information contained therein. I told him plaintiffs could not agree to this as this information was totally irrelevant to defendants' counterclaims and its disclosure would be very prejudicial to plaintiffs. Mr. Coyne asked me whether the license agreements distinguished between hotels and motels and other rental entities. I responded that I had reviewed many of the license agreements with RCA and I did not believe that they mentioned hotels and motels but would check this for him. I pointed out that we were not limiting this category to license agreements relating to hotels and motels.

Request No. 2: Mr. Coyne stated that defendants wanted not only documents generated by the MPAA, as originally requested, but also documents generated by plaintiffs and sent to the MPAA;

Request No. 5: Mr. Coyne stated that defendant's wanted the term "published in magazines" changed to "published or otherwise distributed" and the word "unauthorized" deleted.

16. I told Mr. Coyne that I would discuss his requested changes with my clients as quickly as possible. He stated that he could not promise to wait until the remaining issues were resolved before filing a motion to compel production of documents. Two days later, on February 14, 1986, a proposed stipulation of issues pursuant to Rule 17.15.2 was delivered to my office.

17. As I informed Mr. Coyne's co-counsel by letter of February 20, 1986 (attached hereto as Exhibit "8"), defendants' proposed stipulation inaccurately reflected plaintiffs' positions on many issues, described disputes over issues that Mr. Coyne and I had never discussed (e.g., the situs of the production), made still further changes in the document requests (e.g., for the first time included "competitors" in the request relating to communications between plaintiffs and their licensees), and inaccurately described the history of the discovery disputes (e.g., stat-

ing that plaintiffs were required to produce the documents at issue more than a year ago when in fact all counsel had been ordered by this Court to work together to resolve the disputes and had agreed not to begin to do so until after the decision on the motions for summary judgment, and did not actually begin their negotiations until January, 1986).

18. After several lengthy telephone calls with Mr. Coyne in an attempt to revise the proposed stipulation to reflect the true nature of the issues and documents in dispute, on February 28, 1986, I informed Mr. Coyne by letter of that date (attached hereto as Exhibit "9") that it was not workable to prepare a stipulation over the telephone, and that I would provide him with plaintiffs' written contentions and authorities, for inclusion in the joint statement, by March 7, 1986. In a second letter of that date, (attached hereto as Exhibit "10") I suggested that the hearings on all motions before this Court be continued, if necessary, to allow counsel sufficient time to prepare a joint stipulation. Mr. Coyne did not wait for plaintiffs' input, but instead filed and served this motion on March 3, 1986. It all but ignores the efforts of plaintiffs' counsel over the past several months to resolve the disputes.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 14th day of March, 1986, at Beverly Hills, California.

/s/ Maren Christensen
MAREN CHRISTENSEN

DECLARATION OF BERNARD R. SORKIN

I, BERNARD R. SORKIN, declare and say:

1. I am employed as an attorney by Warner Communications Inc., the parent of Warner Bros. Inc. ("Warner"), one of the plaintiffs in this action. In that capacity, I perform legal services for Warner. I make this declaration in support of plaintiffs' opposition to defendants' motion to compel plaintiffs to produce documents. The facts stated in this declaration are personally known to me and if called upon to testify at a hearing I could and would competently testify thereto.

2. I understand that defendants in this action have demanded the production of all license agreements for the manufacture and distribution of videodiscs and videotapes ["the license agreements"], including the financial information contained therein. Such financial information, including but not limited to the royalty rates to be paid to Warner for each videodisc or tape sold or otherwise exploited, the formula used to define and obtain such royalty, the guarantees, minimums, definitions for moneys due, accounting procedures, and so forth, are highly confidential and are known only to those company employees who must have this information in order to perform their jobs. Such terms are not even known to the other plaintiffs in this action.

3. Should the material terms of either past or current license agreements become known to Warner's competitors or potential licensees, it would cause Warner severe and irreparable harm in that, among other things, Warner's competitors could use such information to unfairly compete with Warner by negotiating agreements using Warner's agreements as a benchmark, under or over bidding Warner as it suited the competitor's own purposes. If such terms should become known to potential licensees of Warner it would ruin Warner's ability to negotiate effectively with its current and potential licensees.

4. I further understand that defendants in this action have requested that plaintiffs search all files, including branch offices, for documents responsive to their document requests. Warner's theatrical distribution subsidiaries have branch offices in many cities in the United States and they and other subsidiaries have offices in many major cities throughout the world. It would be extremely time consuming and expensive to search the files of these branch offices. I have no reason to believe that any responsive documents would be found in any files but those located in Warner's offices in Los Angeles and New York.

I declare under penalty of perjury that the foregoing is true and correct and that I have executed this declaration this 13th day of March, 1986 pursuant to the laws of the State of California at Burbank, California.

/s/ Bernard R. Sorkin
BERNARD R. SORKIN

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, Inc., etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et al.,
Defendants.

AND RELATED COUNTERCLAIMS

DECLARATION OF BEN TENN IN OPPOSITION TO
DEFENDANTS' AND COUNTERCLAIMANTS' MOTION
TO COMPEL PRODUCTION OF DOCUMENTS AND FOR
EXPENSES AND ATTORNEYS' FEES

HRG. DATE: March 24, 1986

TIME: 10:00 A.M.

COURTROOM: 23

I Ben Tenn declare and say:

1. I am a Vice President of the subsidiary of plaintiff Walt Disney Productions ("Disney") responsible for home video. I make this declaration in support of plaintiffs' opposition to defendants' motion to compel plaintiffs to produce documents. The facts stated in this declaration are personally known to me and if called upon to testify at a hearing I could and would competently testify thereto.

2. I understand that defendants in this action have demanded the production of all license agreements for the manufacture and distribution of videodiscs and videotapes,

("the license agreements") including the financial information contained therein. Such financial information, including but not limited to the royalty rates to be paid to Disney for each videodisc or tape sole or others exploited, the formula used to define and obtain such royalty, the guarantees, minimums, definitions for moneys due, accounting procedures, and other financial terms are highly confidential and are known only to those company employees who must have this information in order to perform their jobs. Such terms are not even known to the other plaintiffs in this action.

3. Should the material terms of the license agreements become known to Disney's competitors or potential licensees, it would cause Disney severe and irreparable harm in that, among other things, Disney's competitors could use such information to unfairly compete with Disney by negotiating agreements using Disney's agreements as a benchmark, under or over bidding Disney as it suited the competitor's own purposes. If such terms should become known to potential licensees of Disney it would seriously impair Disney's ability to negotiate effectively with its current and potential licensees.

4. The documentary information which I understand to be sought by defendants from Disney files, if it exists at all, would be located at Disney's home office in Burbank, California.

I declare under penalty of perjury that the foregoing is true and correct and that I have executed this declaration this 14th day of March, 1986, pursuant to the laws of the State of California at Burbank, California.

Ben Tenn
Ben Tenn

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

DEFENDANTS' MEMORANDUM IN OPPOSITION TO
PLAINTIFFS' MOTION FOR A STAY

Hearing Date: March 24, 1986

Hearing Time: 10:00 a.m.

Hearing Place: Courtroom 23

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INTRODUCTION

Defendants, Professional Real Estate Investors, Inc. and Kenneth F. Irwin (collectively "Irwin"), submit this memorandum in opposition to "Plaintiffs' and Counterdefendants' Motion for an Order Staying Proceeding on Counterclaims Pending Resolution of the Appeal." Plaintiffs' motion, which appears to seek a stay of both discovery and trial on Irwin's counterclaims, is defective for several reasons.

First, plaintiffs' motion lacks merit. Stays pending appeal are rarely granted and then only upon a showing of exceptional circumstances which are lacking here. Plaintiffs must establish that they are likely to prevail on the appeal and they will suffer irreparable harm if the stay is not granted. Plaintiffs have not even attempted to carry their burden of meeting this standard.

Second, plaintiffs base their motion entirely on the premise that Irwin's counterclaims are based solely on an allegation that plaintiffs' copyright suit was a "sham." Plaintiffs' contention is simply incorrect. Irwin's counterclaims allege a scheme of illegal activities of which this suit filed by plaintiffs is but one element.

Third, plaintiffs' motion appears to be in large part a motion to stay discovery. A stay of discovery would serve no useful purpose. The discovery concerning the counterclaims that plaintiffs seek to stay is also relevant to Irwin's affirmative defenses of misuse. Discovery of these issues will be needed in connection with Irwin's affirmative defenses, even if plaintiffs ultimately prevail on appeal. To stay discovery would only cause needless delay without any concomitant benefit. Moreover, plaintiffs have been in default of their existing discovery obligations for more than a year. Discovery, and in particular, the outstanding unanswered discovery, should proceed.

Fourth, plaintiffs failed to comply with this Court's Local Rule 7.15 requiring counsel to confer before filing any

discovery motions. Inasmuch as plaintiffs' motion appears to seek a stay of discovery, Rule 7 is applicable. A meeting under the Rule may have been able at least to clarify, and perhaps narrow, the issues raised in the motion. As a result, plaintiffs' motion should be stricken to the extent it seeks a stay of discovery.

FACTS

Plaintiffs are eight movie studios who brought this action alleging copyright infringement. Irwin answered the complaint, denying any wrongdoing, and filed affirmative defenses and counterclaims which allege copyright misuse, antitrust violations, and unfair competition. The parties filed cross summary judgment motions on plaintiffs' copyright claims. The Court ruled in favor of Irwin and plaintiffs have appealed that ruling. Irwin's counterclaims were not part of the cross-motions and are still pending before the Court. Irwin has sought discovery relevant to its counterclaims. Irwin served document requests on plaintiffs over a year ago. Those requests are still outstanding and a motion to compel production is presently before the Court.

ARGUMENTS

I.

PLAINTIFFS FAILED TO SATISFY THE REQUIREMENTS FOR A STAY PENDING APPEAL

A stay pending plaintiffs' appeal is not warranted in this case. Plaintiffs' only argument in support of their motion is that Irwin's counterclaims are based solely on a claim that plaintiffs' copyright claims are a sham and that the counterclaims may, therefore, be rendered moot if plaintiffs prevail on appeal. This argument not only misconstrues Irwin's counterclaims (see Argument II, *infra*), but fails to amount to the "irreparable harm" required to obtain a stay.

A stay pending appeal is granted only in "exceptional" circumstances. *Silberkleit v. Kantrowitz*, 713 F.2d 433, 435 (9th Cir. 1983). The standard is similar to that for a preliminary injunction. Plaintiffs are in effect seeking to enjoin the counterclaims from going forward, pending appeal on plaintiffs' infringement claims. To obtain such a stay, plaintiffs must show a probability of success on the appeal and irreparable harm if the stay is denied. *Lopez v. Heckler*, 713 F.2d 1432, 1435 (9th Cir. 1983) (in considering a motion to stay, the courts assess the same elements as required to obtain an injunction); *Dellums v. Smith*, 577 F. Supp. 1456, 1457 (N.D. Calif. 1984). Plaintiffs have not even attempted to satisfy this standard.

The courts impose this heavy burden in order to discourage stays pending appeal. This is only fair inasmuch as the party seeking the stay has already had a full opportunity to present its claims. Stays are rarely granted because they allow the party to avoid the result of litigation. The general inappropriateness of a stay pending appeal was recently noted by the court in *Dellums v. Smith*, 577 F. Supp. at 1457.

Stays are sparingly granted. They are a disfavored remedy because they interrupt the ordinary process of judicial review and postpone relief for the prevailing party.

Id. at 1457; accord, *Coastal (Bermuda) Ltd. v. E.W. Saybolt & Co.*, 761 F.2d 198, 203 n.6 (5th Cir. 1985) ("Generally, the moving party bears a heavy burden to show why a stay should be granted absent statutory authority, and a court should tailor its stay so as not to prejudice other litigants unduly.").

Generally, stays pending appeal deal with staying the execution of the judgment of the lower court, such as injunctions. The stay is granted because to enforce the injunction may irreparably harm a party. Such compelling needs do not exist where a stay is sought to delay trial

on other issues. All of the cases found which dealt with attempts to stay trial pending appeal have denied the request for a stay. *See, United States v. Zuger*, 602 F. Supp. 889, 892 (D. Conn. 1984), *aff'd*, 755 F.2d 915 (2d Cir. 1985) (denied defendant's motion for stay pending appeal of motion to dismiss); *Ford v. Termplan, Inc. of Georgia*, 528 F. Supp. 1016, 1022 (N.D. Ga. 1981) (denying stay pending appeal of similar case involving same defendant); *cf. McKenzie by Gallant v. Heckler*, 665 F. Supp. 1217, 1220 (D. Minn. 1985) ("A motion under Fed. R. Civ. P. 60(b) [for reconsideration] does not justify a stay."); *In re Midwest Milk Monopolization Litigation*, 0 F.R.D. 12, 13-14 (W.D. Mo. 1973) (discovery not stayed pending ruling on summary judgment motion); *Indian Lake Estates, Inc. v. Lichtman*, 27 F.R.D. 417, 418 (D.D.C. 1961) (granting motion to compel notwithstanding pending summary judgment motion that defendant claimed would "render moot the question raised by Plaintiff's motion [to compel]").

Plaintiffs have not satisfied their burden of showing a compelling need for a stay. That the appeal may moot Irwin's counterclaims can, at best, be interpreted as a claim that plaintiffs will have to incur litigation costs that may be unnecessary if plaintiffs prevail on appeal. This contention is wrong and would not justify a stay even were it true. Litigation costs do not rise to the level of "irreparable injury" for the purposes of warranting a stay pending appeal. *McSurely v. McClennan*, 697 F.2d 309, 317 n.13 (D.C. Cir. 1982). More important, there are no costs that may be avoided by the appeal.

Even if plaintiffs' basic premise—that success on their appeal will moot Irwin's counterclaims—is correct, the antitrust and misuse issues will remain in this case. Irwin has alleged as affirmative defenses that plaintiffs misused their copyrights by violating the antitrust laws and using improper warning labels on their videotapes and discs. Even if plaintiffs ultimately prevail on the public performance issue on appeal, they still cannot recover. The law

specifically provides that a copyright holder cannot enforce its copyrights if it has violated the antitrust laws or has misused its copyrights. *E.g., Broadcast Music, Inc. v. Moor-Law, Inc.*, 203 U.S.P.Q. 487, 488 (D. Del. 1978). The basic facts and issues raised by these affirmative defenses are in large part the same facts and issues raised by Irwin's counterclaims even if plaintiffs prevail on their appeal.

Accordingly, discovery on and resolution of these issues will be required regardless of the outcome of plaintiffs' appeal. If the Court's opinion is upheld on appeal, these issues must be tried as part of Irwin's counterclaims. If the Court of Appeals reverses, even assuming that the counterclaims are rendered moot, these issues must still be considered in determining whether plaintiffs are precluded from enforcing their copyrights because of their misuse. There is, therefore, no judicial economy to be realized. Rather a stay would only delay discovery and resolution of these issues.

The equities favor not granting a stay. Plaintiffs have not, and cannot, identify any hardship in going forward with the counterclaims. On the other hand, a stay would increase the risk that Irwin would be forever precluded from obtaining the necessary information in support of its counterclaims and affirmative defenses. Memories fade and documents are destroyed or lost as time passes. To grant the stay, therefore, would likely result in "irreparable" hardship on Irwin, rather than on plaintiffs.

Finally, plaintiffs have not cited a single case that deals with a stay pending appeal. Rather, all but two of the cases plaintiffs cite concern the Court's authority to issue stays pending completion of arbitration. These cases are inapposite because, unlike this case, the stay was directed to first allow arbitration of the very claims before the court. Plaintiffs here seek to stay independent claims. None of the policies favoring stay in the cases cited by plaintiffs are applicable here. Moreover there is a specific statutory

requirement that the courts stay trial until arbitration is completed if a contract in dispute requires arbitration. Specifically, the statute provides that a court "shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement . . ." 9 U.S.C. § 3 (1982). Even in arbitration, however, discovery continues under the arbitration so that the case does move forward.

Plaintiffs cite *Landis v. North American Co.*, 299 U.S. 248, 57 S. Ct. 163 (1936). In that case, the Supreme Court vacated a stay. The case involved an issue that was also raised in forty-six other cases pending before thirteen other courts. The district court issued a stay until a "test" case was tried and appealed. The Supreme Court vacated the stay ruling that the stay until completion of the appeal in the test case was unreasonable.

We are satisfied that the results of a fair discretion are exceeded in so far as the stay is to continue in effect after the decision by the District Court in the suit against the Bond & Share Company and until the determination by this court of any appeal therefrom. Already the proceedings in the District Court have continued more than a year. With the possibility of an intermediate appeal to the Circuit Court of Appeals, a second year or even more may go by before this court will be able to pass upon the Act. Whether the stay would have been proper if more narrowly confined will be considered later on. For the moment we fix the uttermost limit as the date of the first decision in the suit selected as a test, laying to one side the question whether it should even go so far.

Id. at 256-57, 57 S. Ct. at 167. The Court went on to remand the case to allow the district court to determine whether—even a limited stay that would stay trial only

until the test case was initially decided was warranted. *Id.* at 258-59, 57 S. Ct. at 167-68.

The only other case cited by plaintiffs on the issue of stays, *Baxter Travenol Laboratories, Inc. v. LeMay*, 536 F. Supp. 247 (S.D. Ohio 1982), did not involve a stay pending appeal. Rather, the court simply bifurcated the trial of the counterclaims from the plaintiffs' claims. That result has already been accomplished in this case by partial summary judgment. Moreover, the court in *Baxter Travenol* did not stay all of the proceedings on the counterclaims; discovery continued. *Id.* at 253. Plaintiffs have already had an opportunity to be heard on their claims and lost. Irwin seeks an equal opportunity to pursue its claims.

Plaintiffs have provided no legal or factual support for their motion. There is no judicial economy to be realized. Nor do plaintiffs face any irreparable harm if the stay is denied. To the contrary, the equities favor allowing Irwin to pursue its counterclaims and to obtain through discovery information and documents before they are lost, forgotten, or destroyed.

II.

PLAINTIFFS' MOTION IS BASED UPON A MISINTERPRETATION OF IRWIN'S COUNTERCLAIMS

Plaintiffs base their motion entirely on the contention that action on Irwin's counterclaims should be stayed simply because plaintiffs believe that these counterclaims may become moot if plaintiffs prevail on their appeal. Plaintiffs' argument misconstrues Irwin's counterclaims. Plaintiffs claimed that Irwin's counterclaims are based upon one central assertion: that plaintiffs' suit against Irwin was a sham. *Plaintiffs' Memo* at 3. Plaintiffs then contend that if they prevail on their appeal, the suit cannot be considered a "sham" and therefore Irwin claims fail as a matter of law. Plaintiffs are incorrect on both the facts and the

law. Even were plaintiffs to prevail, the counterclaims, and more importantly the affirmative defenses, would not be automatically mooted.

Plaintiffs contend that "[t]he crux of defendants' counterclaim is that plaintiffs filed this law suit." To the contrary, as identified numerous times to plaintiffs' counsel, Irwin's basic antitrust claim is that the plaintiffs individually, and in concert with others, attempted to restrict the development of a rental market for videotapes and video-discs, especially for use in resorts, hotels, and similar facilities. Plaintiffs undertook this action in order to maintain a monopoly over the distribution of motion pictures to such facilities.

This lawsuit, however, is not the only action undertaken by the plaintiffs in perpetrating its antitrust scheme. Irwin understands that in addition to this action: (1) plaintiffs have filed or threatened to file other actions to prevent the development of a rental market; (2) plaintiffs have restricted their licensed distributors from selling to businesses that rent videodiscs and tapes; (3) plaintiffs have misused their copyrights by inserting threatening notices on videodiscs and tapes that state the viewing of the video is restricted to "home use" only, and that non-home use will subject the user to civil and criminal penalties (to impress on the viewer the seriousness of the threat, an FBI symbol is displayed); and (4) plaintiffs, through their trade associations, used other threatening action such as placing advertisements in hotel trade journals warning the hotel against "stealing" plaintiffs' copyrights by renting or using videos. Recently, Irwin learned that plaintiffs may also discriminate among their licensees by charging different license fees to different distributors. Such discrimination may be used to punish distributors that sell to businesses that rent videos. Moreover, such price discrimination is by itself a violation of the antitrust laws.

Plaintiffs' actions constitute a conspiracy to restrain trade in the marketing of videos to hotels and resorts in violation of Section 1 of the Sherman Act (15 U.S.C. § 1) and the California Cartwright Act (Cal. Bus. & Prof. Code §§ 16,700, *et seq.*), and an attempt and a conspiracy to monopolize the movie market in hotels and resorts in violation of Section 2 of the Sherman Act (15 U.S.C. § 2) and the Cartwright Act. In addition, plaintiffs' discriminatory pricing would violate California's Cartwright Act (Cal. Bus. & Prof. Code §§ 16,700, *et seq.*) and fair competition statutes. Cal. Com. Code §§ 1203, 3294. Irwin's contentions go far beyond a simple allegation that plaintiffs brought this suit against Irwin in bad faith.

Plaintiffs' argument that Irwin can prevail on their antitrust counterclaims only if it can show that the plaintiffs' suit against it was brought in bad faith cannot withstand analysis. Plaintiffs' basic premise is that, under a doctrine called *Noerr-Pennington*, they have a right to institute lawsuits. *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965). This right, however, does not extend to "sham proceedings," which are instituted to interfere with the business of competitors. *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1251-54 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983).

Where plaintiffs' argument fails is in interpreting what constitutes a sham proceeding. Plaintiffs argue that, in order to show this suit was a sham, Irwin must first prevail on the copyright infringement claims of plaintiffs, and then prove that plaintiffs brought the suit without probable cause or in bad faith. The plaintiffs are correct that *one* way of showing a lawsuit is a sham in violation of the antitrust laws is to show that the suit was meritless and brought without probable cause. It is not, however, the only way of showing that litigation is part of an illegal antitrust scheme. *Associated Radio Serv. Co. v. Page Air-*

ways, Inc., 414 F. Supp. 1088, 1095 (N.D. Tex. 1976), *aff'd in part*, 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981).

Litigation can also be shown to be sham where the lawsuit was brought as part of a scheme to achieve "some collateral objective." *Chest Hill Co. v. Guttman*, 1981-2 Trade Cas. (CCH) ¶ 64,47 (S.D. Ohio 1981). The court in *Chest Hill* explained that:

However, the plaintiff must show that the defendant instituted the litigation with the purpose of achieving a "collateral" objective, and that he committed a specific act—other than those acts incidental to the normal use of the court or agency—directed at attaining that objective. . . . Abuse of process rests on the theory that no legitimate social interest is served by allowing the employment of *even meritorious litigation by the defendant when his real aim is the nonadjudicatory objective*, and when proof of specific conduct taken to achieve that objective limits theangers of inquiry into his subjective purpose.

Id. at p. 75,058, quoting *Associated Radio Serv. Co. v. Page Airways, Inc.*, 414 F. Supp. 1088, 1096 (N.D. Tex. 1976), *aff'd in part*, 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981) (emphasis added). This is basically what happened in the case in *California Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), in which the defendants instituted and threatened to institute adjudicatory proceedings opposing any and all applications by their competitors for issuance or transfer of motor carrier certificates. Although most of the defendants opposition were baseless, some appeared to have merit. This, however, did not shield them from the consequences of their anticompetitive activity.

The *Noerr-Pennington* exception to antitrust liability is not applicable where the "protected" activity, such as fil-

ing a lawsuit, is part of a larger scheme in violation of the antitrust laws. *Scott v. City of Sioux City, Iowa*, 1982-83 Trade Cas. (CCH) ¶ 65,203 at p. 71,847 (N.D. Iowa (1982) ("Where legitimate lobbying is combined with illegal action, the *Noerr-Pennington* exception has no application"); *Antitrust Law Developments (ABA)* at 615-14 (2d Ed. 1985) (and cases cited therein), *cf.*, *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983).

In the present case, plaintiffs are engaged in a pattern of activity designed to violate the antitrust laws. Specifically, plaintiffs have tried to enlarge their copyright monopoly by eliminating the market for rental of videodiscs and videotapes especially to hotels, resorts, and similar facilities. This lawsuit is only part of plaintiffs' scheme to achieve their "collateral" objective of monopolizing the market for distributing films to hotels, resorts, and other facilities.

Accordingly, plaintiffs' basic premise for the stay requested—that Irwin's counterclaims are based solely on a claim of sham litigation—is simply not true. Moreover, as explained above, the issues raised by the counterclaim are in large part also raised by Irwin's affirmative defenses. There is, therefore, simply no reason to stay the proceedings on Irwin's counterclaims.

III.

A STAY OF DISCOVERY PENDING APPEAL IS INAPPROPRIATE

Plaintiffs failed to seek a stay of discovery under Fed. R. Civ. P. 26(c) and thereby have arguably waived such a stay. To the extent that plaintiffs' motion is construed to seek a stay of discovery, such a stay is unsupportable. Plaintiffs have not cited a single case or any justifiable reason to stay discovery.

Plaintiffs principally rely upon the decision in *Baxter Travenol Laboratories, Inc. v. LeMay*, 536 F. Supp. 247 (S.D. Ohio 1982). In that case, the district court granted a motion to bifurcate the plaintiffs' claims from the defendants' counterclaims. In granting the motion to bifurcate, the court considered the status of discovery on the defendant's counterclaims.

In addition, Defendant has acknowledged (doc. # 152, pp. 12-13) that discovery for the antitrust counterclaim cannot be completed until the Sixth Circuit rules on this Court's decision of May 20, 1981, permitting Warnick to claim the attorney-client privilege when asked certain questions by Defendant. That decision, on interlocutory appeal, *see*, 514 F. Supp. 1156 (S.D. Ohio 1981), has not been ruled upon, on appeal, at this writing.

Id. at 253. Far from staying discovery in the defendant's counterclaims, the court recognized that the discovery would continue.

In cases where courts have stayed trial on bifurcated counterclaims, the courts have rejected any stay of discovery. For example, in *Johnson & Johnson v. Kimberly-Clark Corp.*, 28 Fed. R. Serv. 2d 370 (E.D. Wisc. 1978), a case involving claims of patent infringement, with antitrust and unlawful trade practices counterclaims based upon a claim of patent invalidity, the court ordered separate trials for the infringement claim and the counterclaims. The court specifically rejected a motion to stay discovery on the counterclaims until completion of the infringement trial. In so holding, the court noted:

... I believe it would be unrewarding to have a long hiatus between the two trials to accommodate the discovery needed for preparation for the second trial. Under all the circumstances, I find that the motion to stay discovery should be denied.

Id. at 372; *accord*, *U.S. Industries, Inc. v. Procter & Gamble Co.*, 17 Fed. R. Serv. 2d 1212, 1213 (S.D.N.Y. 1973); *Alarm Device Mfg. Co. v. Alarm Products International, Inc.*, 60 F.R.D. 199, 203 (S.D.N.Y. 1973).

There is no basis for a stay of discovery. The information and documents sought are relevant to both Irwin's counterclaims and affirmative defenses. The outcome of plaintiffs' appeal will not effect the need for this information. Once the appeal is completed, regardless of its outcome, these issues will have to be decided. To stay discovery will only cause needless delay.

IV.

PLAINTIFFS' MOTION IS PROCEDURALLY DEFECTIVE

To the extent that plaintiffs seek a stay of discovery, they failed to comply with this Court's rules. Specifically, Rule 7.15.1 requires plaintiffs to arrange and conduct a meeting of counsel to discuss this dispute prior to filing a motion. Furthermore, under Rule 7.15.2, plaintiffs are required to formulate a written stipulation setting forth the positions of each party. Plaintiffs failed to comply with either of those rules. Plaintiffs did not request a conference in writing as required by Local Rule 7.15.1 nor did they attempt to secure from Irwin a stipulation.

Plaintiffs' failure is more than form over substance. First, if plaintiffs did not intend to seek a stay of discovery, this could have been clearly articulated in the required stipulation. If they did, Local Rule 7.15.1 required plaintiffs to so state in their request for a meeting of counsel to discuss such a stay. Second, in discussing Irwin's outstanding discovery requests and their motion to compel, plaintiffs asked Irwin's counsel, Mr. King, if Irwin would consider a stay of discovery and trial on the counterclaims. Mr. King indicated that Irwin would not agree to a stay of discovery, but would consider a stay of trial once discovery

was completed. Plaintiffs did not pursue this matter, so no further discussions were held.

Plaintiffs' failure to follow the rules of this Court preclude any ruling on their motion as it may pertain to discovery. Irwin respectfully requests that plaintiffs' motion be stricken, insofar as it pertains to discovery, for plaintiffs' violation of this Court's Local Rules. This is not plaintiffs' first rule violation and should not be tolerated.

CONCLUSION

Plaintiffs have not provided any justification for a stay pending appeal. There is no judicial economy to be realized by a stay. Plaintiffs do not identify any harm in going forward with Irwin's counterclaims. Having had the opportunity to be heard on their claims, it is inappropriate to deny Irwin an equal opportunity to be heard. For the foregoing reasons, Irwin respectfully requests that the Court deny plaintiffs' motion for a stay.

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By: /s/ JW King
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Attorneys for Defendants/Counter-
claimants

Dated: March 13, 1986

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

v.

AND RELATED COUNTERCLAIM

REPLY MEMORANDUM OF DEFENDANTS AND COUNTERCLAIMANTS IN SUPPORT OF MOTION TO COMPEL PRODUCTION OF DOCUMENTS AND FOR EXPENSES AND ATTORNEYS' FEES; DECLARATIONS IN SUPPORT THEREOF

Hearing Date: March 24, 1986

Hearing Time: 10:00 a.m.

Hearing Place: Courtroom 23

FILED

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

BY _____

[Table of Contents omitted in this printing]

[Table of Authorities omitted in this printing]

**REPLY MEMORANDUM IN SUPPORT OF MOTION TO
COMPEL PLAINTIFFS AND COUNTERDEFENDANTS TO
PRODUCE DOCUMENTS**

INTRODUCTION

This memorandum is respectfully submitted on behalf of defendants and counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively "Irwin"), in response to the opposition of plaintiffs and counterdefendants (collectively "plaintiffs") to Irwin's motion to compel. There is one principal flaw in plaintiffs' opposition: they ignore Irwin's proposed stipulation of issues which, as required by the Court's rules, fully sets forth Irwin's position on the discovery disputes. Instead, plaintiffs base their opposition on their own interpretation of an exchange of letters that occurred midway through the negotiations. As explained more fully below, plaintiffs themselves repudiate the "agreement" on the issues allegedly reached in those letters by adding issues and other limitations not set forth in the letters. As a result, plaintiffs' opposition is not responsive to a number of the issues articulated in Irwin's motion and necessitates a longer than usual reply.¹ Notwithstanding this shortcoming, Irwin addresses the four basic arguments raised in plaintiffs' opposition. Even with plaintiffs redefining the issues, their contentions lack merit.

Plaintiffs first argue that it is Irwin, not plaintiffs, that has failed to cooperate in resolving the discovery issues. This argument is little more than an attempt to divert the Court's attention from the real issues—Irwin's need for and right to meaningful discovery. There is no need to

¹ Plaintiffs' opposition was also served late on Irwin and cut off almost half the time Irwin had to respond to the opposition. This fact also makes it difficult for Irwin to make its reply memorandum brief. See Blaise Pascal, *Letters Provinciales*, xvi (1657) ("I have made this letter longer than usual, only because I have not had the time to make it shorter").

debate plaintiffs' "cooperation." Plaintiffs cannot avoid the facts that Irwin's requests were served over a year ago; this motion was not filed until a full two months after Irwin requested the meeting of counsel to try to resolve these issues and two and a half weeks after serving plaintiffs with a proposed stipulation; and plaintiffs have produced, at best, only six documents responsive to the requests concerning Irwin's counterclaims.

Plaintiffs' second, and principal argument, is that they need not produce documents under the "Noerr-Pennington" doctrine. Plaintiffs devote the majority of their memorandum to explaining the merits of their "Noerr-Pennington" affirmative defense. That doctrine, however, provides limited antitrust immunity and is not a basis for refusing to produce documents. Moreover, plaintiffs' "Noerr-Pennington" claim has been waived as a result of plaintiffs' failure to raise it until more than a year after their responses to Irwin's discovery requests were due.

Third, plaintiffs object to Irwin's requests on grounds of burden, arguing that the requests should be limited to documents pertaining to the rental of videos at hotels, to documents located at plaintiffs' "home offices," and to documents prepared between February 1, 1980 and February 1, 1984. These restrictions, however, which were imposed for the first time just a month ago, would render Irwin's request meaningless and effectively eliminate any responsive documents. Plaintiffs do not attempt merely to reduce the burden; they proposed to eliminate the production.

Fourth, plaintiffs object to the production of license agreements on the grounds of relevancy and confidentiality. The documents are undisputedly relevant. As to confidentiality, a confidentiality agreement is already in place—an agreement under which Irwin produced documents. This agreement actually provides greater protection than the protective order proposed by plaintiffs. Plaintiffs' claim of

confidentiality has become an excuse, not a reason, for refusing to produce responsive documents.

One need only consider what plaintiffs have produced in order to understand their total lack of cooperation and the inadequacies of their responses to the document requests. Plaintiffs have refused to produce any documents responsive to nineteen of the twenty-one requests relating to Irwin's counterclaims. They produced the few documents responsive to the remaining two requests only because those requests also related to plaintiffs' claims as well as to Irwin's counterclaims. Even for those two requests, production was incomplete. All eight plaintiffs together have produced only six documents relating to the counterclaims. Of the documents produced in response to the counterclaim document requests, two are annual reports, one is an employee magazine, and three are copyright notice labels from two videotapes and one videodisc. A review of plaintiffs' arguments further underscores the inadequacy of their response to Irwin's requests for documents.²

STATEMENT OF FACTS

Plaintiffs' opposition is plagued by omissions of fact, by misrepresentations of the events that have transpired between the parties in attempting to resolve these discovery disputes, and by plaintiffs' refusal to address the issues. On the basis of these omissions and misrepresentations, plaintiffs have attempted to paint a rosy picture of the discovery negotiations that have transpired; this picture,

² Plaintiffs claimed they have produced "almost 900 pages of documents." *Plaintiffs' Memorandum in opposition to Defendants' Motion to Compel* at 1 (hereinafter "*Plaintiffs' Opposition Memo*"). This is misleading because all of the documents produced (except for the few identified above) were copies of copyright registrations and plaintiffs' proof of ownership of those registration.

unfortunately, is belied by the harsh reality of plaintiffs' failure to produce documents.

It is unnecessary to debate plaintiffs' contentions because they add little to the basic issue before the Court—the scope of discovery to which Irwin is entitled.³ Nonetheless, a few clarifications are appropriate.

1. Contrary to plaintiffs' implications, the Court did not deny Irwin's prior motion to compel. Rather, the Court, in light of plaintiffs' retaining new counsel, requested the parties to work together to resolve the disputes and imposed a ten-day limit on plaintiffs to respond. *See Reporter's Transcript*, at 18/19-22, and 9/18-10/17 (September 18, 1985) (attached hereto as Exhibit 9). Moreover, the Court did not rule that Irwin's original requests were too broad. Rather the Court indicated that Irwin would have to narrow the requests if discovery on the antitrust counterclaims was to proceed prior to summary judgment. The Court stated further that if Irwin decided to proceed on the broad requests, it would have to wait until after the summary judgment motions were filed and resolved. Specifically, the Court noted that:

Then to the extent that you [plaintiffs] find the discovery request with respect to antitrust not to be unduly burdensome, I commend to you that you give it to them because I'll probably require it anyway, not being willing to defer consideration of antitrust until we hear our summary judgment motion.

³ Irwin set forth the basic pertinent facts in its memorandum in support of its motion to compel and will not repeat them here. However, so that plaintiffs' misrepresentations do not go uncorrected, a full recitation of the facts is provided in the Supplemental Declaration of Patrick J. Coyne, Counsel for Irwin, to which the Court may refer for additional information. (Attached hereto as Exhibit 8.) Exhibits 1-7 were attached to Irwin's Motion to Compel.

On the other hand, I tell you, Mr. King, that if the court concludes that it is burdensome, I will *defer* it.

Reporter's Transcript at 17/13/21. (Emphasis added)

Irwin, given that plaintiffs had new counsel, relaxed the ten-day schedule imposed by the Court to resolve these issues. Irwin ultimately held off on the request until the cross summary judgment motions were decided in light of plaintiffs' representations that they would likely settle if they lost on their summary judgment motion. *See Reporter's Transcript* at 13/10-14/2.

2. Plaintiffs argue that Irwin "brought the first motion [to compel] without even attempting to discuss the discovery issues with plaintiffs' newly retained counsel." *Plaintiffs' Opposition Memorandum* at 1. Irwin, however, filed its first motion to compel before plaintiffs' new counsel was even retained. At oral argument on that motion, which was held over five weeks after Irwin filed the motion, plaintiffs' new counsel informed the court they had been retained "about three-and-a half weeks" ago. *Reporter's Transcript* at 8/3-13. Plaintiff's last minute switch of counsel prior to the hearing did not erase the eight months of total refusal to cooperate that preceeded the filing of that motion. Unfortunately, plaintiff's change of counsel has also not resulted in any meaningful or substantive change in plaintiffs' unwillingness to produce documents.

3. Plaintiffs' opposition conveniently omits any mention of the efforts taken by Irwin pursuant to Local Rule 7.15.1 (meeting of counsel) through 7.15.4 (proposed stipulation) to resolve the outstanding discovery disputes. Plaintiffs' omission parallels their refusal to respond in accordance with those rules. On January 3, 1986, pursuant to Local Rule 7.15.1, Irwin requested a conference within ten days to resolve the outstanding discovery disputes. The conference was delayed until January 25, 1986, at the request of plaintiffs' counsel.

After some negotiation, plaintiffs' counsel announced on February 12, 1986 that plaintiffs were not going to produce any documents at this time regardless of what agreement could be reached narrowing the requests. Plaintiffs also interposed several new objections (the "Noerr-Pennington" objection, a limitation on production to review only "home office" files, and a limitation on production to only documents prepared between February 1, 1980 and February 1, 1984). Accordingly, on February 14, 1984, 42 days after the Rule 7.15.1 conference had been requested, Irwin's counsel hand delivered a proposed stipulation setting forth the outstanding discovery issues as required by Rule 7.15.2. Under Local Rule 7.15.2 and 7.15.4, plaintiffs were required to respond to and enter into the proposed stipulation within seven days. Plaintiffs, however, failed to respond within the time required and even refused to discuss their objections to the stipulation over the telephone thirteen days later. Rather, plaintiffs announced that they would prepare a written response at some time in the future.

The Local Rules set forth reasonable time limits for the parties to respond to and try to resolve discovery disputes. Irwin has continually extended those deadlines to accommodate plaintiffs. There is a limit to this courtesy and it was reached here. Irwin filed its motion on March 3, 1986, fourteen months after serving the requests, two months after requesting the Rule 7 meeting, and two and a half weeks after it served upon plaintiffs the proposed stipulation.

4. Plaintiffs have attempted to frame the issues by picking and choosing from among the negotiations only those documents that support them. They rely on a letter from plaintiffs to Irwin dated January 27, 1986. They include in their reconstruction of the issues only one element of Irwin's response to their letter dated January 29, 1986. Plaintiffs cannot, however, rely on their unilateral framing of the issues in their January 27 letter. That letter does

not raise or discuss plaintiffs' subsequent assertions of the "Noerr-Pennington" objection, the restriction of the search to "home offices," or the limitation that only documents prepared between February 1, 1980 and February 1, 1984 will be produced. Accordingly, plaintiffs are forced to incorporate material from their letter to Irwin dated February 11, 1986, in which these objections and limitations were raised for the first time. Plaintiffs ignore Irwin's response—the proposed stipulation. In so doing, they have ignored the course of the negotiations and created artificial "issues" that reflect only their own positions.

Plaintiffs, therefore, base their entire opposition on their two letters and a portion of Irwin's correction of one of those letters. *Plaintiffs' Opposition Memo* at 8 n.3. Plaintiffs prepared Appendix 1 identifying each issue and the position taken in each letter. A review of the Appendix highlights the shortcoming in plaintiffs' contention. Plaintiffs' positions in the second letter are more restrictive than their original proposals. More significantly, the Appendix does not even mention Irwin's proposed stipulation; a stipulation which, as required by the rules, sets forth in detail both parties' positions.

By ignoring the stipulation and relying on interim letters between the parties, plaintiffs raise straw man arguments that Irwin is attempting to expand the document requests rather than narrow them. Irwin has substantially narrowed the requests. Plaintiffs, however, simply have not accepted Irwin's proposed narrowing. Plaintiffs' arguments, therefore, are fundamentally unresponsive to Irwin's motion.

ARGUMENTS

I.

PLAINTIFFS HAVE WAIVED A NUMBER OF THEIR OBJECTIONS BY FAILING TO RESPOND

In their opposition, plaintiffs ignore many of the points raised in Irwin's motion.⁴ Plaintiffs failed even to acknowl-

⁴ Plaintiffs' opposition was not properly served on Irwin's counsel.

edge the issues as set forth in Irwin's proposed stipulation sent to plaintiffs on February 14, 1986, or Irwin's motion to compel. In view of plaintiffs' failure to respond, Irwin respectfully requests that the Court order the production of the following categories of information:

1. *Organizational Charts*. Plaintiffs should be required to produce all corporate-organizational information for that portion of the corporate structure of each plaintiff involved in the produc-

Pursuant to the "Stipulation Concerning Briefing Schedule on Motions Presently Before the Court," all opposition papers were required to be served by hand on or before March 14, 1986. That Stipulation was entered to accommodate plaintiffs' request for additional time to respond to Irwin's motions. Plaintiffs were granted an additional week to prepare their oppositions, leaving Irwin only two business days and a total of four days to reply. Irwin, in effect, agreed to work all weekend to accommodate plaintiffs.

Plaintiffs did not serve their opposition prior to close of business on March 14, 1986. Irwin made repeated inquiries concerning the opposition, but plaintiffs' counsel refused to accept the calls or talk to counsel for Irwin. Finally, after Irwin's counsel left a message explaining that he would not accept late service, plaintiffs telecopied a copy of the opposition. Plaintiffs, however, failed to send a complete copy, including only the Memorandum of points and Authorities and Appendix 1. The telecopy was received at approximately 8:00 p.m. Plaintiffs' remaining exhibits and declaration were not received on March 14, 1986. Finally at 10:00 p.m., Saturday night, March 15, 1986, plaintiffs delivered a complete copy of their opposition to Irwin. Irwin, in contract, served its opposition to plaintiffs' motion for a stay early on Friday, March 14, 1986, to afford plaintiffs an opportunity to work on their reply memorandum on Friday given the shortened time to reply.

Plaintiffs' tardiness has adversely affected Irwin's ability to respond by eliminating Friday and Saturday to prepare its response. Accordingly Irwin respectfully requests that the Court strike plaintiffs' opposition for defective service. Rather than burden the Court with yet another motion and an ex parte application to shorten time, Irwin respectfully requests that this Court exercise its equitable powers to strike plaintiffs' opposition. Given that Irwin already had agreed to shorten its reply time to accommodate plaintiffs' schedule, the additional lost time to respond is unfair and unjustified.

tion or distribution of motion pictures, videodiscs, and videotapes.

2. *Communications Concerning Irwin.* Plaintiffs should be required to produce all communications concerning Irwin that are not held to be subject to plaintiffs' "Noerr-Pennington" objection, if the objection is sustained. (See Argument II, *infra*).
3. *Copyright Notices and Warning Labels.* Plaintiffs should be required to produce representative samples of warning labels used by each plaintiff on videodiscs and videotapes and all communications relating to the authorization to use and the use of such restrictions and the use of the FBI symbol in conjunction with those restrictions. In conjunction with this category of information, plaintiffs should be required to produce all documents that the Court finds are not protected by plaintiffs' alleged "Noerr-Pennington" privilege, if that objection is sustained. (See Argument II, *infra*.)
4. *Situs of Production.* Plaintiffs should be required to produce all documents responsive to the narrowed document requests at the offices of Irwin's local counsel, Michael J. Dennis Law Corporation, 510 West Sixth Street, Suite 910, Los Angeles, California.
5. *Attorney-Client.* Plaintiffs state in their opposition that they "agreed to produce a list of all documents withheld on such grounds and all information necessary to determine if such claims were appropriate." *Plaintiffs' Opposition* at 11. This is the minimum required, yet, plaintiffs have not provided this list for more than a year. Moreover, the attorney-client privilege has been waived for a number of documents. Plaintiffs, in their opposition to Irwin's motion for fees, argued that "plaintiffs brought and prosecuted the action only after con-

sulting and retaining three experienced copyright law firms. . . ." *Plaintiffs' Opposition to Irwin's Motion for Attorney Fees* at 8. By raising this argument plaintiffs themselves have placed their reliance on opinions or advice of counsel in issue. Having done so, any privilege to those opinions or advice is now waived. *Handgards, Inc. v. Johnson & Johnson*, 413 F. Supp. 926, 929 (N.D. Cal. 1976) ("[t]he deliberate injection of the advice of counsel into a case waives the attorney-client privilege as to communications and documents relating to the advice"); *International Telephone & Telegraph Corp. v. United Telephone Co. of Florida*, 60 F.R.D. 177, 185-186 (M.D. Fla. 1973) ("if the client . . . takes the stand and testifies to privileged communications in part this is a waiver as to the remainder of the privileged consultation or consultations about the same subject"). The courts have recognized that fundamental principles of fairness compel this result. *United States v. Exxon Corp.*, 94 F.R.D. 246 (D.D.C. 1981) (fairness to the opposing party requires full disclosure of the communications relied upon).

II.

PLAINTIFFS' NOERR-PENNINGTON OBJECTIONS ARE INVALID

Plaintiffs object to three of the seven narrowed document requests on the basis of the alleged "Noerr-Pennington" privilege. Specifically, they object to the production of: (a) documents to or from the Motion Picture Association of America ("MPAA") relating to the sale, rental, or use of videodiscs and/or videotapes (see Memorandum at 25-26 and attached stipulation at 131); (b) documents relating to plaintiffs' restrictive copyright notices and to plaintiffs' use of the FBI symbol (see Irwin's Mem-

orandum at 28-29 and attached stipulation at 132); and (c) documents relating to defendants (see Irwin's Memorandum at 30 and attached stipulation at 125).⁵

Plaintiffs' "Noerr-Pennington" objection is defective for two principal reasons. First, when plaintiffs filed their initial objections, they did not object to any of Irwin's document requests on the basis of the newly asserted "Noerr-Pennington" or "First Amendment" privilege. The "Noerr-Pennington" objection was made for the first time on February 11, 1986, and the "First Amendment" objection was first raised in plaintiffs' opposition memorandum on March 15, 1986.⁶ Rather than attempting in good faith to resolve the outstanding disputes, plaintiffs are enlarging them.

Plaintiffs, by failing to raise these objections within the time provided, have waived them. *Dollar v. Lawn Mfg. N.C., Inc.*, 561 F.2d 613 (5th Cir. 1977), *cert. denied*, 435 U.S. 996 (1978); *Renshaw v. Ravert*, 82 F.R.D. 361 (E.D. Pa. 1979). In spite of the fact that the plaintiffs' devoted over half of their opposition memorandum to the Noerr-Pennington issue, plaintiffs posit only one sentence with respect to waiver. Plaintiffs attempt to circumvent their unequivocal waiver by arguing that the doctrine has been raised through their relevancy objection.

⁵ Plaintiffs contend that the request for MPAA documents is also too broad and would require production of documents related to "piracy," "off-the-air recording," and many other unrelated topics. Irwin has already narrowed the request to eliminate production of such documents. Plaintiffs were informed of Irwin's willingness to narrow the request once plaintiffs explained the problem at least as early as the September hearing on Irwin's first motion to compel. See Reporter's Transcript at 15/13-20.

⁶ Plaintiffs also attempt to separate their First Amendment allegations from their Noerr-Pennington allegations. The "Noerr-Pennington" doctrine, however, is based on First Amendment principles, not independent of them. See *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1263 (9th Cir. 1982) ("Noerr immunity is based on the First Amendment right to petition and to seek to influence governmental action").

Relevancy and the alleged Noerr-Pennington privilege are based on entirely different grounds. Each flows from different principles and different criteria are employed in their application. See *Adolf Coors Co. v. Wallace*, 570 F. Supp. 202, 207 (N.D. Cal. 1983). Even assuming plaintiffs' alleged "Noerr-Pennington" privilege exists, plaintiffs' original relevancy objection in no way contemplated resisting discovery on the basis of a "Noerr-Pennington" or First Amendment privilege. Rather, plaintiffs' relevancy objection was based solely on relevancy to the subject matter of this litigation. Fed. R. Civ. P. 26(c). This objection was discussed repeatedly with plaintiffs' prior counsel and with plaintiffs' present counsel; yet, they never mentioned this new interpretation until more than 13 months after plaintiffs' objections were due.

A relevancy objection is not a nose of wax that can be twisted into any other objection plaintiffs may have wished they or their prior counsel had raised. The time for raising objections to the document requests has long since passed. Irwin's willingness to narrow the requests in no way provides plaintiffs additional opportunities to raise new, untimely objections. Plaintiffs did not raise their "Noerr-Pennington" objection when they had the opportunity and may not do so now.

There is a second serious flaw in plaintiffs' claim of "Noerr-Pennington" privilege. The "Noerr-Pennington" doctrine is a defense, not a privilege against production of documents. *North Carolina Electric Membership Corp. v. Carolina Power & Light Co.*, 666 F.2d 50, 53 (4th Cir. 1981); see also, *Associated Container Transportation (Australia) Ltd. v. United States*, 705 F.2d 53, 60 (2d Cir. 1983). The authority cited by plaintiffs in support of their alleged Noerr-Pennington privilege is largely inapposite. Over half of plaintiffs' argument is devoted to this one objection. Eleven of the nineteen cases cited by plaintiffs are used in support of this argument. Of the eleven Noerr-Pennington cases cited by plaintiffs, only three even ad-

dress discovery. All three support Irwin's position that, even were such a privilege properly raised, it would not provide a documentary privilege against production in this case.

In *North Carolina Electric Membership Corp. v. Carolina Power & Light Co.*, 666 F.2d 50 (4th Cir. 1981), the district court held that defendants would not be required to produce documents allegedly protected by the "Noerr-Pennington" Doctrine. The fourth Circuit reversed stating "We hold that the Noerr-Pennington exemption from antitrust liability does not extend to discovery of evidence, and therefore we reverse." *Id.* at 51. The court went on to state:

There is no authority for fitting the Noerr-Pennington Doctrine into the "privilege" exception to the rule. Nor is there any question that discovery of this material may lead to admissible evidence. Indeed, the *Pennington* decision allows at least some of that evidence to be admitted at trial if accompanied by a proper jury instruction.

Id. at 53; see also, *Associated Container Transportation (Australia) Ltd. v. United States*, 705 F.2d 53, 60 (2d Cir. 1983) (production ordered).

The only tangentially pertinent precedent cited by plaintiffs is *Australia/Eastern U.S.A. Shipping Conference v. United States*, 537 F. Supp. 807 (D.C.C. 1982), and *Adolf Coors Co. v. Wallace*, 570 F. Supp. 202 (N.D. Cal. 1983), in which the court balanced the need for the information against the potential chilling effect of disclosure on protected rights. Even these cases, however, conclusively establish that plaintiffs' Noerr-Pennington privilege would lack merit. In both cases, the court required that the privilege be properly raised. Plaintiffs have not done so. Nor have plaintiffs even attempted to explain how any balancing would weigh in their favor.

Any privilege which may exist under the "Noerr-Pennington" Doctrine is based on First Amendment rights. No First Amendment interests are implicated in this case. Plaintiffs simply cannot show the requisite probability that disclosure will lead to reprisal or harassment. *Adolf Coors*, 570 F.Supp. at 210. Irwin has no power to threaten or chill the exercise of any First Amendment right by plaintiffs. Particularly in view of plaintiffs' size and aggressiveness self-censorship is highly unlikely.

In contrast to the minimal showing made by plaintiffs, Irwin's need for the information is substantial. The documents requested by Irwin relate directly to specific suspected violations of the antitrust laws. Irwin has provided on numerous occasions detailed explanations of its antitrust counterclaims. In *Australia/Eastern*, the case principally relied upon by plaintiffs, the court noted that:

In civil discovery the court has the benefit of a complaint alleging specific violations against which to measure the relevance of the request. If respondents were to make a showing at the investigative stage of the material sought is strongly needed to confirm or prove specific suspected violations of the antitrust laws, the balance could tip in their favor.

537 F.Supp. at 812.

Far from providing a privilege against discovery, the "Noerr-Pennington" doctrine may actually result in a waiver of plaintiffs' attorney-client privilege and work product doctrine. For example, in *Handguards, Inc. v. Johnson & Johnson*, 413 F. Supp. 926 (N.D. Cal. 1976), a private antitrust action, it was alleged that the defendant attempted to restrain trade by bringing patent infringement suits in bad faith. The defendant asserted that the prior lawsuits were brought on the basis of competent legal advice. The court held that defendant had waived the privilege for documents bearing on the purpose of the lawsuits

and on defendant's good faith in maintaining them. *Id.* at 929; see also, *Panter v. Marshall Field & Co.*, 80 F.R.D. 718 (N.D. Ill. 1978) (where defendants in shareholder suit for violation of proxy rules and breach of fiduciary duty asserted that counsel advised them that a particular transaction would violate the antitrust laws, privilege waived as to communications relating to that issue); *International Paper Co. v. Fibreboard Corp.*, 63 F.R.D. 88 (D. Del. 1974) (submission of counsel's affidavit stating that patent examiner had advised him that client's patent rights were superior to opponent's waived the privilege as to all details of the meeting between the attorney and the client in which this information was conveyed).

Plaintiffs have already put in issue the advice of their attorneys. As explained above, plaintiffs opposed Irwin's motion for attorneys' fees in part on the grounds that "plaintiffs opposed Irwin's motion for attorneys' fees in part on the grounds that 'plaintiffs brought and prosecuted the action only after consulting and retaining three experienced law firms. . . .'" *Plaintiffs' Opposition to Irwin's Motion for Attorneys' Fees* at 8. As a result, "Noerr-Pennington" does not provide plaintiffs with an excuse to refuse to produce documents; instead, it compels plaintiffs to produce documents.

Rather than directly address whether the "Noerr-Pennington" doctrine provides an evidentiary privilege, plaintiffs argue the applicability of "Noerr-Pennington" as an affirmative defense. The merits of plaintiffs' defense are not properly raised in a discovery motion. Accordingly, the bulk of the case law cited by plaintiffs is simply inapposite.⁷ The Noerr-Pennington doctrine does not provide a privilege to resist discovery.

⁷ Moreover, the case law cited by plaintiffs demonstrates that, even in a trial on the merits, plaintiffs' "Noerr-Pennington" defense will be unavailing. For example, in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 512 (1972), the Supreme Court has noted that,

III.

PLAINTIFFS' OBJECTIONS, BASED ON RELEVANCY, AND BURDEN HAVE NOT BEEN ADEQUATELY SUPPORTED AND MUST BE OVERRULED

Plaintiffs' claims of burden and relevancy are ill founded. Plaintiffs seek to restrict Irwin's requests to require plaintiffs to search only for: (a) documents relating to rentals of videos at hotels and motels; (b) documents located only at each plaintiffs' "home offices"; and (c) documents prepared between February 1, 1980 to February 1, 1984. Not only are these restrictions unwarranted, but they

"It is well settled that First Amendment rights are not immunized from regulation when they are used as an integral part of conduct which violates a valid statute." Similarly, in *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240 (9th Cir. 1982), cert. denied, 459 U.S. 1227 (1983), the Ninth Circuit recognized these principles and held that, even where litigation is brought in good faith, if it is part of an overall scheme in violation of the antitrust laws, as are plaintiffs' restrictions on the rental market for videos in this case, they are not protected by Noerr-Pennington immunity:

. . . when there is a conspiracy prohibited by the antitrust laws, and the otherwise legal litigation is nothing but an act in furtherance of that conspiracy, general antitrust principles apply, notwithstanding the existence of the Noerr immunity . . . Noerr immunity is based on the First Amendment right to petition and to seek to influence governmental action . . . When, however, the petitioning activity is but a part of a larger overall scheme to restrain trade, there is no overall immunity.

690 F.2d at 1263.

In *Caplan v. American Baby, Inc.*, 582 F. Supp. 869 (C.D.N.Y. 1984), another case relied upon by plaintiffs, the court required that discovery be had prior to resolution of an alleged "Noerr-Pennington" defense in motion to dismiss. *Id.* at 871. In addition, the court expressly recognized that misuse of intellectual property rights is alone enough to overcome the Noerr-Pennington defense. *Handguards, Inc. v. Ethicon, Inc.*, 601 F.2d 968, 994 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980) (another case cited by plaintiffs).

would in essence eliminate production of virtually any documents.

A. Restriction To Documents Related Expressly To Hotels And Motels Is Unwarranted

Plaintiffs have attempted to limit four of Irwin's narrowed requests to only documents relating to the use of videos by hotel and motel guests on the grounds of relevancy.⁸ Plaintiffs' proposed restriction is inappropriate for two basic reasons.⁹

Plaintiffs' proposed restriction is inappropriate for two basic reasons. First, plaintiffs themselves do not recognize, prepare, or file separately documents relating to hotels and resorts market. Plaintiffs' counsel has stated that plaintiffs do not distinguish between hotels and motels and other licensees when licensing their copyrighted works. The limitation suggested by plaintiffs, therefore, would se-

⁸ The four requests at issue are: (1) documents relating to communications and restrictions on sale or rental of videodiscs or videotapes (Irwin's Memorandum at 23-25, 130-31); (2) documents to or from the Motion Picture Association of America ("MPAA") relating to the sale, rental, or use of videodiscs and/or videotapes (Irwin's Memorandum at 25-25, 130); (3) all protest letters and complaints, regardless of form that protest the rental or use of videodiscs and/or videotapes (Irwin's Memorandum at 26-27, 130-32); and (4) all press releases, warnings, protests, advertisements, and similar documents distributed by the MPAA or any of plaintiffs attempting to restrict the sale, rental, or use of videodiscs and/or videotapes (Irwin's Memorandum at 29, 133).

⁹ Plaintiffs also attempt to reinject issues in these requests that already have been resolved. Plaintiffs allege that irrelevant documents regarding piracy, off the air record, profit participation of writers, use of tapes in commercial broadcasts, pay cable networks, syndication, schools, prisons, commercial airlines, and a host of other issues and uses would be drawn in the production. Plaintiffs' Opposition Memo at 17-18. Irwin, however, narrowed the requests to eliminate these categories of documents in September 1985, in open court. See Reporter's Transcript at 15.

verely restrict discovery, eliminating a large amount of highly relevant and perhaps dispositive information.

Plaintiffs' attempt to deny their counsel's admission that plaintiffs make no distinction between hotels and motels and other sections of the rental market. *Plaintiffs' Opposition Memo* at 18. That denial amounts to a distinction without a difference. On February 12, 1986, plaintiffs' counsel expressly conceded that plaintiffs probably use only one form license agreement and that plaintiffs themselves do not distinguish the hotel and motel rental market from any of the other markets in which plaintiffs impose restrictions on the rental of videodiscs and videotapes. These restrictions, therefore, are based on general policies that are relevant to the subject matter of Irwin's affirmative defenses and antitrust counterclaims.

Inasmuch as plaintiffs do not distinguish between hotels and motels and other elements of the rental market, such a limitation would be entirely artificial. Accordingly, in searching for documents even in the restricted category of hotels and motels, plaintiffs would have to search documents relating to all types of businesses, not limited to hotels and motels. The burden, therefore, would be identical whether the request is limited or not. In fact, this additional step of culling out documents that do not expressly relate to hotels and motels may itself impose a burden on plaintiffs. In all likelihood the broader class of documents would be faster, simpler, and less costly for plaintiffs to identify and produce.

Second, plaintiffs' argument is premised on a misreading of Irwin's counterclaims and affirmative defenses. As explained to plaintiffs several times orally and in the pleadings of record, Irwin alleges in its antitrust counterclaims that "(1) plaintiffs restrict their licensed distributors of videotapes and videodiscs from selling videos to businesses that intend to rent the videos; (2) plaintiffs brought this action and brought or threatened to bring similar actions

against other hotels and resorts renting videos to thwart the development of the video alternative; (3) plaintiffs misused their copyrights by inserting threatening notices on videos that state viewing of the videos is restricted to "home use" and that non-home use will subject the user to criminal and civil penalties (to impress on the viewer the seriousness of the threat, an FBI symbol is displayed); and (4) plaintiffs, through their trade associations, used other threatening actions such as placing advertisements in hotel trade journals warning the hotels against "stealing" plaintiffs' copyrights by renting or using videos." *Irwin's Memorandum* at 16- 17.

Irwin's counterclaims are substantially broader than plaintiffs' recantation of them. It is these counterclaims that determine the relevancy to the subject matter of this suit. Plaintiffs employ policies of general application with respect to restrictions on the rental of videodiscs and videotapes. These policies are applied to all types of licensed enterprises including, but not limited to, hotels and motels. Restricting the search to only those documents that specifically refer to hotels and motels will likely exclude a large volume of evidence that describes and explains plaintiffs' policies of general application. The limitation suggested by plaintiffs may well prevent Irwin from achieving any meaningful discovery with respect to these requests.

B. Plaintiffs' Proposed Time Limitations Are Unjustified

Plaintiffs' attempt to restrict the time period for documents responsive to the requests from February 1980 to February 1984. Plaintiffs allege that since activities engaged in before February 1, 1980, would be barred by the applicable statute of limitations, they should not be required to produce any documents generated before that date. Plaintiffs also seek to restrict production of documents between February 1984 and the present. That time period is well within any applicable limitations period.

Plaintiffs have proffered no other justification for unilaterally imposing this time restriction.

The only case relied on by plaintiffs is inapposite. In *Klein v. Lionel Corporation*, 130 F. Supp. 725 (D. Del. 1955), plaintiff propounded interrogatories asking defendant to identify the dollar volume of sales of a particular product to certain buyers for each year for a ten year period. While the dollar volume of sales for years outside of the statute of limitations might be irrelevant to the antitrust *damage claims* raised in that case, the existence of *liability* for copyright misuse, and a conspiracy, or attempt to monopolize remains relevant. In contrast to damages, material relevant to liability remains discoverable past the applicable period of limitations. *Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 82 S. Ct. 1404, 8 L.Ed.2d 77 (1962).

Courts have recognized that discovery with respect to antitrust liability should extend beyond the period of the statute of limitations. For example, in *United States v. Maryland & Virginia Milk Producers Association*, 20 F.R.D. 441 (D.D.C. 1957), the court established a ten-year cut-off period on discovery relating to allegations of restraint of trade and attempts to monopolize. On the issue of acquisition of other purchasers, however, the court found that an even longer period of time was appropriate. In *In re Shopping Carts Antitrust Litigation*, 95 F.R.D. 299, 309 (S.D.N.Y. 1982), the court employed a 14-year period for discovery. Incidentally, the court in that case found many of the same types of document requests propounded by Irwin to be entirely appropriate. Similarly, in *Quonset Real Estate Corp. v. Paramount Film Distributing Corp.*, 50 F.R.D. 240, 241 (S.D.N.Y. 1950), the court allowed discovery to extend back ten years before the earliest possible action in violation of the antitrust laws.

Plaintiffs imposed this time limit for the first time in their February 12, 1986 letter. The limitations are un-

timely and therefore waived. Moreover, the statute of limitations was raised for the first time in plaintiffs' opposition memorandum on March 15, 1986. When plaintiffs first raised the time limit issue, they based it solely on burden not that the documents were irrelevant because they are outside the statute of limitations. Plaintiffs' continuous injection of new arguments and objections serves only to complicate the issues. The simple fact is that there is no realistic fear that Irwin will obtain "all documents from the beginning of time . . ." *Plaintiffs' Opposition Memo* at 31. Video rentals are a relatively new phenomenon of the past ten years or so. The appropriate time limit is the start of the video rental business.

C. Plaintiffs Are Required to Produce All Documents In Their Possession, Custody, Or Control

In addition, plaintiffs object that their search should be limited to their "home office" files. This objection was raised for the first time on February 11, 1986, more than a year after plaintiffs were required to respond to the document requests. Plaintiffs attempt to bolster their claims of burden with the affidavits filed by Bernard Sorcken and Ben Tenn. These affidavits are wholly insufficient to meet plaintiffs' burden of proof in establishing that the document requests would be unduly burdensome.

The Federal Rules require *undue* burden. Burden is a relative concept. The more that is at stake, the greater the burden a party is expected to sustain. *Keco Indus., Inc. v. Stearns Electric Corp.*, 285 F. Supp. 912, 914 (E.D. Wisc. 1968) (party seeking damages of half a million dollars is not in strong position to complain of burdensome requests). Plaintiffs are in a far weaker position. Their claim could easily have exceeded \$4 million.¹⁰ In contrast to the substantial liability plaintiffs seek to impose upon Irwin,

¹⁰ Plaintiffs brought this case seeking up to \$50,000 damages for infringement of 74 copyrights plus attorneys' fees and costs.

plaintiffs' have been unwilling to sustain *any* burden in producing documents responsive to the counterclaims.

Plaintiffs must establish the magnitude of the burden involved and that such burden outweighs Irwin's need for the information. *Xerox Corporation v. International Business Machines Corporation*, 399 F.Supp. 451, 456 (S.D.N.Y. 1975). Mr. Tenn alleges only that it would be "extremely time consuming and expensive to search the files of their branch offices." These simple allegations are inadequate. "If the interrogatories are relevant, the fact that they involve work, research, and expense is not sufficient to render them objectionable." *United States v. NYSCO Laboratories, Inc.*, 26 F.R.D. 159, 161 (E.D.N.Y. 1960). Even where it would require "hundreds of employees . . . many years of man hours to unearth the answers," discovery has been required. *Alexander v. Rizzo*, 50 F.R.D. 374 (E.D. Pa. 1970). The need here is compelling inasmuch as plaintiffs are the only source for most of the information sought by Irwin. Mr. Sorcken states only that plaintiff Disney's home office is the only location of such documents. If it turns out that there are no documents in other than their home offices, plaintiffs need only so state.

IV.

PLAINTIFFS HAVE PROVIDED NO SUPPORT FOR RESISTING DISCOVERY ON THE BASIS OF THE ALLEGED CONFIDENTIALITY OF THE RATES CONTAINED IN THEIR LICENSE AGREEMENTS

Plaintiffs' objections to producing their license agreements are unavailing. Plaintiffs refuse production because the licenses contain royalty rates which plaintiffs claim are not relevant and confidential. As to relevancy, plaintiffs did not object to the relevancy of the license rates during negotiations. In fact, plaintiffs "offered" in their letter of February 11, 1986, to allow Irwin to inspect unredacted copies of all such documents implicitly conceding that this

information is relevant. In their Opposition, however, plaintiffs attempt to resurrect their relevancy objection to the financial information. Stripped of its rhetoric, it is no more than an attempt to prevent Irwin from securing copies of documents that plaintiffs have already conceded are relevant.

The relevancy of plaintiffs' license agreements cannot be seriously challenged. These agreements undoubtedly contain restrictions on the rental and use of videodiscs and videotapes. The financial provisions are relevant terms of those agreements. Those provisions may be used to provide incentives or disincentives for various types of conduct by licensees. Plaintiffs attempt to divert the Court's attention from the relevancy of this information by once again oversimplifying and misstating Irwin's affirmative defenses and antitrust counterclaims. Those claims are far broader than plaintiffs will accept.

In addition to their untimely attempt to renew their relevance objection, plaintiffs object to the production of copies of their financial information on the basis of confidentiality.¹¹ Opposition at 32-34. There is simply no privilege against discovery of trade secrets and similar confidential information. *Federal Open Market Committee of the Federal Reserve System v. Merrill*, 443 U.S. 340, 362 (1979).

Plaintiffs' alleged fears of disclosure are even less persuasive. Plaintiffs in their opposition feign fear of disclosure of their royalty rates to competitors. This is not even an issue. Irwin does not ask for unfettered production of the information for dissemination to the public but only for production on reasonable terms. All confidential information will be maintained in confidence and will not be

¹¹ Plaintiffs have apparently abandoned all of their other claim of confidentiality.

disclosed to competitors. All persons to whom it will be divulged will be bound to maintain that confidentiality.¹²

Plaintiffs' objection is particularly inappropriate in view of the existing confidentiality agreement that is already in place. That agreement, entered on January 15, 1985, provides plaintiffs far more protection than they purport to seek in the proposed protective order. The existing confidentiality agreement limits the documents to attorneys only. There is no doubt that a less restrictive agreement will eventually be needed, but the interim agreement eliminates any confidentiality concerns of plaintiffs. Plaintiffs are simply attempting to further delay production of the documents and to impede Irwin's efforts to obtain discovery.

V.

PLAINTIFFS' HAVE NOT SHOWN ANY SUBSTANTIAL JUSTIFICATION FOR THEIR REFUSAL TO COOPERATE IN DISCOVERY, COMPELLING THE IMPOSITION OF SANCTIONS

Plaintiffs once again seek to deflect attention from their glaring failures to produce documents by making an unjustified and unsupported demand that the Court impose

¹² Plaintiffs in their opposition also allege that Irwin has recanted their prior "agreement" to review unredacted copies of the agreements. Irwin offered to review unredacted copies of the license agreements only as an interim measure prior to the motion for summary judgment when it became obvious that the parties would not be able to agree to an appropriate protective order prior to hearing on the motion. In spite of this accommodation, plaintiffs refused to allow Irwin to review the documents. This whole issue was mooted by the Court's entry of summary judgment in this case. That fact was explained to plaintiffs' counsel when Irwin began pursuing discovery on the antitrust counterclaims and affirmative defenses immediately following the entry of summary judgment on Irwin's motion. Plaintiffs' counsel agreed that the interim arrangement would no longer be appropriate; yet, plaintiffs now attempt to resurrect this moot issue.

sanctions on Irwin. Plaintiffs are obsessed with Irwin's pending motion for sanctions and attorneys' fees—perhaps because they sense that they have substantial merit.

Plaintiffs' attempt to attack Irwin's compliance with the Local Rules is disingenuous at best and further highlights plaintiffs' bad faith. In spite of plaintiffs' rhetoric, they cannot deny their failures to conclude the Local Rule 7.15.1 conference, to provide the information required to prepare the proposed stipulation as required by Local Rule 7.15.2, to provide information necessary to revise the stipulation so that it might be filed with this Court, to meet any of their own deadlines established during the course of these negotiations, and most important, to produce any documents at this time, even those to which they do not object.

If this course of conduct is what plaintiffs mean by claiming that they have "cooperated fully," Irwin is at least glad that plaintiffs are not refusing to cooperate. After more than a year of delay, it would be difficult indeed had plaintiffs not "cooperated fully."

CONCLUSION

For the foregoing reasons, Irwin respectfully requests that the Court grant their motion to compel production of documents and to require plaintiffs and plaintiffs' counsel to pay the costs, including attorneys' fees, that Irwin has incurred in preparing this motion.

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNS

By /s/ Laura J. Barns
for Jeffrey W. King
for Attorneys for Defendants/
Counterclaimants

Dated: March 18, 1986

SUPPLEMENTAL DECLARATION OF PATRICK J. COYNE IN SUPPORT OF IRWIN'S MOTION TO COMPEL PRODUCTION OF DOCUMENTS

I, Patrick J. Coyne, declare:

1. I am a member of the Bar of the District of Columbia, and I am an associate with the law firm of Collier, Shannon, Rill & Scott. Since approximately September, 1984, I have assisted Jeffrey W. King in the matter of *Columbia Pictures Industries, Inc., et al. v. Professional Rest Estate Investors, Inc., et al.*, (Case No. 83-2594 WPG). I have knowledge of the facts set forth below, and if called as a witness, I would testify to these facts based upon my knowledge.

2. Negotiations leading up to the present motion to compel began, not on January 6, 1986 as plaintiffs contend, but rather, immediately after the Court's ruling on the motions for summary judgment in December, 1985. During the week of December 30, 1985, I repeatedly telephoned Maren Christensen, counsel for plaintiffs, to initiate discussions of Irwin's outstanding discovery requests but received no response.

3. On January 3, 1986, pursuant to Local Rule 7.15.1, I sent a letter to Ms. Christensen requesting a conference within ten days to resolve the outstanding discovery disputes.

4. Both parties developed proposals for narrowing the disputed discovery requests relating to the counterclaims. These were presented during a telephone conference on January 23, 1986 during which the Local Rule 7.15.1 conference noticed on January 3, 1986 was commenced. That conference call involved Maren Christensen, Bill Billick, and Diana Simon, on behalf of plaintiffs, and Jeffrey W. King and myself on behalf of Irwin. Plaintiffs attempted to narrow Irwin's Document Request Nos. 1 and 20-39 to only three: (1) communications between plaintiffs and their

licensees relating to restrictions on rentals to hotels and motels, (2) restrictions imposed by plaintiffs on RCA affecting sales to Irwin, and (3) plaintiffs' "home use" warning labels and use of the FBI symbol. Plaintiffs' counsel did not disclose at that time, however, that plaintiffs were unwilling to produce any documents. Rather, plaintiffs gave Irwin the distinct impression that, were the parties able to agree to an acceptable narrowing of the requests, discovery would proceed. Mr. King and I felt that plaintiffs' proposal was far too restrictive and Mr. King suggested an alternative narrowing of the document requests that were still disputed to 7 basic categories of information. During that telephone conference, Mr King again reiterated Irwin's request that plaintiffs immediately begin producing those documents to which plaintiffs did not object.

5. Maren Christensen stated during the January 23 telephone conference that she would contact counsel for Irwin during the week of January 27, 1986 to continue the Local Rule 7.15.1 conference.

6. On January 28, 1986, Mr. King and I received a letter from Ms. Christensen dated January 27, 1986, purporting to reconfirm Irwin's proposals for narrowing the disputed document requests. Ms. Christensen specifically stated in her January 27 letter that she would not even contact their clients to discuss the requests until we confirmed her interpretation of the categories of documents. Plaintiffs' recitation, however, contained numerous inaccuracies. Accordingly, on January 30, 1986, I wrote to Maren Christensen attempting to correct these inaccuracies. This letter was not intended as a final comprehensive statement of all elements of the current dispute. For example, none of the requests the parties had previously agreed to limit was discussed in either Ms. Christensen's or my letter. In violation of plaintiffs self-imposed time limit to continue the Local Rule 7.15.1 conference, plaintiffs failed to continue or conclude the conference by January 31, 1986.

7. In a further attempt to resolve the dispute and to conclude the Local Rule 7.15.1 conference, I telephoned plaintiffs' counsel on January 31, and again on February 3. Receiving no response, I wrote to Ms. Christensen on February 4, 1986. I made additional attempts to contact Ms. Christensen on February 6 and 7, 1986. In spite of these numerous attempts to contact plaintiffs' counsel, no substantive response was received. Rather, plaintiffs responded by letter dated February 6, 1986 that they would not continue or conclude the Local Rule 7.15.1 conference by February 7, 1986—one week past their self-imposed deadline.

8. I finally able to discuss the matter with Maren Christensen and Bill Billick, counsel for plaintiffs, by telephone on February 7, 1986. Plaintiffs' counsel, however, were not willing to substantively discuss the discovery disputes, nor were they willing to provide any information needed to prepare the proposed discovery stipulation pursuant to Local Rule 7.15.2. In spite of the limited progress that had been made up to that time, plaintiffs refused to waive any of their objections to the document requests. Rather, they would promise only to provide Irwin's counsel a written response to Irwin's proposed narrowing of the requests by February 10, 1986.

9. No response was received from plaintiffs on February 10, however, On the evening of February 11, 1986, after the close of business, at 6:00 p.m. EST, plaintiffs telecopied to Irwin's counsel their counter-proposal.

10. Plaintiffs' counter-proposal differed in a number of significant respects from Irwin's proposals. Plaintiffs introduced a number of additional restrictions into Irwin's already substantially narrowed requests. In addition, plaintiffs raised for the first time on February 11, 1986, three entirely new objections based on the "Noerr-Pennington" doctrine and the dates and locations of documents that would be subject to Irwin's document requests.

11. Upon receiving plaintiffs' counter-proposal, I once again repeatedly attempted to contact plaintiffs' counsel to discuss the counter-proposals. During a telephone conversation with Maren Christensen on February 12, 1986, Ms. Christensen announced for the first time that plaintiffs were not willing to go ahead with production of any documents even were the parties able to agree to a mutually acceptable narrowing of the disputed document requests.

12. During my telephone conversation with Maren Christensen on February 12, I discussed with Ms. Christensen the reasons why we felt that the additional limitations imposed by plaintiffs in their counter-proposal were not acceptable. Ms. Christensen, however, refused to attempt to resolve any of the outstanding disputes at that time. I telephoned back the evening of the 12th, and again on the 13th, in an attempt to continue the discussion. Receiving no response from plaintiffs, Mr. King and I prepared a proposed stipulation pursuant to Local Rule 7.15.2 setting forth for the first time a comprehensive statement of the remaining discovery disputes. That proposed stipulation was served by hand on plaintiffs on February 14, 1986, 42 days after the Rule 7.15.1 conference had been requested.

13. The cover letter accompanying the proposed stipulation served on plaintiffs specifically requested that plaintiffs contact me directly with any suggested changes or revisions to the stipulation. Rather than comply with that request, Ms. Christensen wrote directly to Laura J. Barns, Irwin's local counsel, in a letter dated February 20, 1986, stating that she felt the proposed stipulation was inaccurate in a number of regards.

14. Upon receipt of Ms. Christensen's letter, I responded by letter dated February 24, 1986, reiterating Irwin's prior request to direct correspondence regarding the stipulation to me and offering to discuss any proposed revisions plaintiffs may have in order that the stipulation

could be completed by February 16, 1986, as required by Local Rules 7.15.2 and 7.15.4. Plaintiffs, however, did not return the signed stipulation by February 26, 1986, nor did plaintiffs counsel contact me to discuss the proposed stipulation.

15. I telephoned Ms. Christensen on February 27, in yet another attempt to work out a stipulation that would be acceptable to both parties. While Ms. Christensen indicated an initial willingness to discuss the stipulation, when the conversation turned to substantive changes in the stipulation, she broke off the conversation but stated that she would call back within 15 minutes to continue the discussion. She did not. I waited in my office more than an hour for her return phone call which I never received, although Ms. Christensen apparently did attempt to telephone 45 minutes after our conversation ended. I repeatedly attempted to contact Ms. Christensen on the afternoon of February 27, at 2:00 p.m., 3:30 p.m., and 4:45 p.m., but received no response.

16. On February 28, 1986, I again repeatedly attempted to contact Ms. Christensen but received no response. I received a telex from Ms. Christensen during the late afternoon of February 28, stating without explanation that she no longer wished to discuss the proposed stipulation by telephone and suggesting a proposed schedule that would have further delayed resolution of the pending discovery disputes. I responded immediately by telecopy explaining that plaintiffs' proposed schedule for redrafting the stipulation, well outside the time periods provided by the Local Rules, was not acceptable because it would not provide Irwin adequate time to prepare a motion to compel for hearing with the other pending motions on March 24, 1986. I again urged Ms. Christensen to contact me to discuss any changes plaintiffs felt were necessary to the proposed stipulation.

17. Several of the requests have been narrowed by agreement between counsel for the parties:

- a. Request No. 1 for organizational charts has been narrowed to require production of all corporate organizational information for that portion of the corporate structure of each plaintiff involved in the production or distribution of motion pictures, videodiscs, and videotapes;
- b. Plaintiffs have conceded that Request No. 3 seeking communications between or among plaintiffs and Irwin concerning Irwin is proper.
- c. Plaintiffs have conceded that Request Nos. 30 and 31 are proper inasmuch as they seek representative samples of plaintiffs' restrictive "home use" notices and/or use of the FBI symbol in conjunction with those notices.
- d. The parties have agreed that Document Request Nos. 1 and 20-39 are narrowed to exclude documents relating to piracy, off-the-air recordings, profit participation of writers, directors, etc.

18. Having received no response from plaintiffs to the proposed stipulation, on March 3, 1986, Irwin filed the present motion to compel production of documents.

19. In response to plaintiffs' request for additional time to respond, *inter alia*, to Irwin's Motion to Compel, Irwin agreed to stipulate that the parties would have at least two weeks, until March 14, 1986, to file and serve by hand on the opposing party, their respective oppositions to Irwin's Motion to Compel Production of Documents, to Irwin's Motions for Costs and Attorneys' Fees, and to Plaintiffs' Motion to Stay Proceedings.

20. Irwin timely served by hand upon plaintiffs on March 14, 1986, Irwin's opposition to plaintiffs' Motion to stay Proceedings.

21. None of plaintiffs' opposition papers, however, was timely served by hand upon Irwin, as required by the stipulation. Irwin's lead counsel received plaintiffs' oppositions to Irwin's Motions for Costs and for Attorneys' Fees at approximately 5:20 p.m. on the evening of March 14, 1986. I telephoned plaintiffs' counsel repeatedly on the evening of March 14, 1986, inquiring about plaintiffs' opposition papers that had not been served. I spoke with Maren Christensen by telephone on the evening of March 14, 1986, at approximately 6:30 p.m., regarding plaintiffs' untimely service of their opposition to Irwin's Motion to Compel. Although plaintiffs telecopied portions of plaintiffs' opposition to me, which were received at approximately 8:00 p.m. on the night of March 14, 1986, Irwin's lead counsel did not receive a complete copy of plaintiffs' opposition to Irwin's Motion to Compel on March 14, 1986.

22. Plaintiffs did not deliver a complete copy of their opposition to Irwin until 10:00 p.m. on the night of Saturday, March 15, 1986.

23. Irwin agreed to accept a copy of plaintiffs' opposition but did not waive any defect in service and I so informed plaintiffs by telecopy and during my telephone conversation with Maren Christensen on the night of Friday, March 14, 1986, at approximately 6:30 p.m.

I DECLARE, under penalty of perjury, that the foregoing is true and correct and that this declaration is executed this 18th day of March, 1986, in Washington, D.C.

/s/ Patrick J. Coyne
PATRICK J.
COYNE

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

HONORABLE WILLIAM P. GRAY, JUDGE PRESIDING

CIVIL NO. 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., ETC., ET AL.
PLAINTIFFS,

VS.

PROFESSIONAL REAL ESTATE INVESTORS, INC., ETC.,
ET AL.,
DEFENDANTS.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
ANGELES, CALIFORNIA
WEDNESDAY, SEPTEMBER 18, 1985

[3] LOS ANGELES, CALIFORNIA, WEDNESDAY,
SEPTEMBER 18, 1985

10:00 A.M. SESSION

THE CLERK: ITEM NUMBER TWO, CIVIL 83-2594, COLUMBIA PICTURES INDUSTRIES, INCORPORATED, ET AL., VERSUS PROFESSIONAL REAL ESTATE INVESTORS, INCORPORATED, ET AL.

MR. KROFT: GOOD MORNING, YOUR HONOR. STEPHEN KROFT AND MAREN CHRISTENSEN FOR THE PLAINTIFFS AND OPPOSING PARTIES. WE ALSO HAVE HERE PRIOR COUNSEL, MS. WOLPERT AND MR. ROSE, IN CASE THEY ARE NEEDED FOR THE HEARING

THE COURT: ALL RIGHT. GOOD MORNING TO ALL OF YOU.

MR. KING: GOOD MORNING, YOUR HONOR. I'M JEFFREY, HERE WITH LAURA BARNS. WE REPRESENT THE DEFENDANTS AND THE MOVING PARTIES IN THIS ACTION.

THE COURT: ALL RIGHT. YOU ARE MS. BARNS?

MS. BARNS: YES.

THE COURT: I SUPPOSE CONFESSION IS GOOD FOR THE SOUL. BECAUSE OF SOME OTHER DEADLINE PROBLEMS THAT I HAVE HAD, I HAVEN'T STUDIED ALL THESE MONUMENTAL PAPERS WITH THE THOROUGHNESS THAT I WOULD NORMALLY LIKE TO DO, BUT I DO HAVE SOME IMPRESSIONS.

AS I UNDERSTAND IT, THIS LITIGATION STEMS FROM [4] THE FACT THAT PLAINTIFF, COLUMBIA PICTURES, AND OTHERS, CONTEND THAT THE DEFENDANTS, WHO RUN THE LA MANCHA PRIVATE CLUB AND VILLAS, HAVE BEEN SHOWING THEIR MOTION PICTURE CASSETTES, OR ALLOWING THEM TO BE SHOWN, UNDER SUCH CIRCUMSTANCES AS TO CONSTITUTE A PUBLIC PERFORMANCE AND, THEREFORE, ARE SUING FOR WHAT, INJUNCTION AND DAMAGES?

MR. KROFT: YES, YOUR HONOR. STATUTORY DAMAGES ONLY.

THE COURT: AND THE DEFENDANTS SAY, APPARENTLY, "WE HAVE NOT BEEN INFRINGING YOUR COPYRIGHT."

YOU DON'T CHALLENGE THE VALIDITY OF THE COPYRIGHT?

MR. KING: YOUR HONOR, WE HAVE NOT BEEN SHOWN SUFFICIENT PAPERS TO IDENTIFY ALL THE COPYRIGHTS. THERE ARE 75 COPYRIGHTS IDENTIFIED, I BELIEVE; THERE ARE EIGHT OF THEM THAT HAVE NOT BEEN SHOWN WHETHER THEY ARE REGISTERED OR WHO OWNS THEM.

THE COURT: ALL RIGHT. BUT THE MAIN ISSUE IS THEN WHETHER OR NOT THE DEFENDANTS HAVE BEEN UNJUSTIFIED IN THEIR ACTIONS OF SHOWING THOSE FILMS?

MR. KING: THE MAIN ASPECT OF PLAINTIFFS' CLAIM IS WHETHER MY CLIENTS INFRINGED THEIR COPYRIGHTS BY ALLOWING THOSE MOTION PICTURES TO BE SHOWN BY THE GUESTS IN THE VILLAS, YES.

THE COURT: YOUR CLIENTS, IN EFFECT, HAVE WHAT, [5] RENTED THE PICTURES TO YOUR GUESTS AND THEY TAKE THEM TO THEIR OWN ROOMS AND SHOW THEM, OR SOMETHING TO THAT EFFECT?

MR. KING: THAT'S EXACTLY RIGHT, YOUR HONOR.

THE COURT: AND THE QUESTION IS, DOES THAT CONSTITUTE A PUBLIC PERFORMANCE THAT WOULD BE IN VIOLATION OF THE COPYRIGHT LAWS.

MR. KING: THAT IS HOW I UNDERSTAND THE CONTENTIONS, YOUR HONOR.

THE COURT: AND A SUBSIDIARY ISSUE TO THAT IS WHETHER OR NOT THE PLAINTIFFS HAVE COPYRIGHTS ON ALL THOSE FILMS.

YOU DON'T SERIOUSLY QUESTION THAT THEY DO, DO YOU?

MR. KING: MY ONLY PROBLEM IS, YOUR HONOR, I HAVE NOT BEEN SHOWN OWNERSHIP PAPERS FOR ALL OF THEM.

THE COURT: OKAY.

MR. KING: SOME OF THE COPYRIGHT PAPERS WE WERE GIVEN SHOW OWNERSHIP IN OTHER THAN THE PLAINTIFFS' NAME AND THERE ARE TRANSFER PAPERS FOR THEM.

THE COURT: THEN YOU HAVE A COUNTERCLAIM, AN ANTITRUST COUNTERCLAIM; IS THAT RIGHT?

MR. KING: AMONGST THE OTHER COUNTERCLAIMS, YES, YOUR HONOR, WE HAVE AN ANTITRUST COUNTERCLAIM.

THE COURT: AS I UNDERSTAND THE LAW, IF THEY [6] HAVE A VALID COPYRIGHT, AND THEY ARE CHARGING INFRINGEMENT, IT IS NOT APPROPRIATE THAT—THE ALLEGED INFRINGER IS NOT ENTITLED TO BRING AN ANTITRUST CONTENTION AGAINST THEM.

MR. KING: I'M CONFUSED, YOUR HONOR. I THINK THAT WE ALLEGE THAT THEY VIOLATE THE COPYRIGHTS THROUGH A SERIES OF ACTIVITIES; AMONGST THAT IS BRINGING THESE TYPES OF LAWSUITS AGAINST US AND OTHERS. IT'S ABUSING THEIR COPYRIGHT NOTICE BY SEEKING TO OBTAIN MORE PROTECTION THAN THE LAW ALLOWS. IT'S PUTTING IN RESTRICTIVE LICENSING AGREEMENTS WITH THE PEOPLE WHO PRODUCED THE VIDEODISCS AND TAPES.

THE COURT: WAIT A MINUTE, NOW. PUTTING IN RESTRICTIVE LICENSING. WELL, WHAT IS THAT TO YOU?

MR. KING: THEY ARE ATTEMPTING TO RESTRICT THE DEVELOPMENT OF A MARKET FOR THE RENTAL OF VIDEODISCS AT RESORTS AND HOTELS AND HAS INHIBITED MY CLIENT FROM EXPANDING HIS MARKET.

THE COURT: WELL, IF YOU ARE VIOLATING THE COPYRIGHT LAWS BY HAVING A PUBLIC PERFORMANCE, THEY ARE ENTITLED TO CHALLENGE YOU ON IT. IF

YOU ARE NOT, WHY THEN THEY DON'T PREVAIL IN THEIR ACTION.

NOW, WHAT IS THIS ALLEGED ANTITRUST CONDUCT?

MR. KING: YOUR HONOR, AS WE UNDERSTAND IT, IT'S MANIFOLD.

[7] ONE IS, THAT THEY PUT RESTRICTIONS, AND WE HAVE BEEN SO INFORMED BY OFFICIALS OF ONE OF THEIR LICENSEES, THAT TRY TO PREVENT THE LICENSEE WHO PRODUCES THE DISC, OR THE TAPE, FROM SELLING THOSE DISCS OR TAPES TO PEOPLE IN THE POSITION OF MR. IRWIN, WHO WOULD RENT THESE DISCS OR TAPES OUT.

TWO IS, THAT THEY PUT IN A COPYRIGHT NOTICE WHICH WARNS ANYONE WHO LOOKS AT IT THAT SAYS, "THIS COPYRIGHT—" OR "VIEWING OF THIS PICTURE IS RESTRICTED TO HOME USE," NOT TO PRIVATE USE BUT TO HOME VIEWING AND WITH A BIG FBI SYMBOL IN IT THAT YOU CAN BE SUBJECT TO CIVIL AND CRIMINAL LIABILITY.

THAT IS FAR BEYOND WHAT THE COPYRIGHT GRANTS THEM, SO THEY ARE TRYING TO EXPAND THE MONOPOLY AGAIN BEYOND WHAT IS GRANTED THEM.

THIRDLY, THEY BROUGHT THIS SUIT, AND SUITS SIMILAR TO IT, IN AN ATTEMPT TO TRY TO BEAT BACK A DEVELOPMENT OF THIS MARKET AND I BELIEVE IN ALL BUT THIS SUIT OF THIS NATURE, WHICH INVOLVES RESORTS AND HOTELS, HAVE BROUGHT SETTLEMENTS, SO THE ISSUE HAS NEVER BEEN LITIGATED.

THE COURT: NOW, THERE ARE WHAT—YOU HAVE ABOUT 60 CONTENTIONS OF THEIR REFUSAL TO SUBMIT DOCUMENTS?

MR. KING: WE HAVE 40 REQUESTS, YOUR HONOR.

THE COURT: 40 REQUESTS. AND SOME OF THEM THEY [8] ALLEGE ATTORNEY-CLIENT PRIVILEGE. OVER WHAT REQUEST DO YOU ALLEGE AN ATTORNEY-CLIENT PRIVILEGE?

MR. KROFT: YOUR HONOR, I BELIEVE IT PROBABLY IS EVERY ONE OF THEM, ALTHOUGH I HAVE BEEN IN THIS CASE ABOUT THREE-AND-A-HALF WEEKS SO I CAN'T SPEAK WITH ABSOLUTE CERTAINTY ON THAT, BUT I MIGHT SHORTCIRCUIT THIS A LITTLE BIT, YOUR HONOR.

WE HAVE BEEN IN THE CASE ONLY THREE-AND-A-HALF WEEKS AND AS SOON AS I WAS ABLE TO GET A HANDLE ON WHAT WAS GOING ON I FOUND THAT THERE WERE CERTAIN DOCUMENTS PROMISED WHICH HADN'T BEEN PRODUCED FOR WHATEVER REASON AND WE HAVE ARRANGED TO GET THOSE DOCUMENTS PRODUCED AND THAT INVOLVES ABOUT 14 OF THE REQUESTS.

THE COURT: WELL, I HAVE A STRONG IMPRESSION THAT SOME OF THE DOCUMENTS THAT HAVE NOT BEEN PRESENTED SHOULD BE MADE AVAILABLE TO THE DEFENDANT AND I HAVE AN EQUALLY STRONG IMPRESSION THAT THE DEFENDANTS ARE ASKING FOR MORE THAN THEY REALLY NEED OR SHOULD BE ENTITLED TO AND I HAVE AN EVEN STRONGER IMPRESSION THAT YOU PEOPLE SHOULD CARRY OUT OUR LOCAL RULE THAT REQUIRES YOU TO SIT DOWN AND TRY TO WORK THOSE THINGS OUT BEFORE COMING TO THE COURT.

I'M NOT SURE THAT MY IMPRESSION IS HEIGHTENED BY THE FACT THAT I HAVEN'T STUDIED ALL OF THESE, OR AM NOT PREPARED TO RULE ON THEM, BUT I THINK THE INTERESTS OF [9] JUSTICE AND YOUR RESPECTIVE INTERESTS WOULD BE BETTER SERVED BY YOUR TRYING TO WORK THESE THINGS OUT FIRST.

MR. KING: YOUR HONOR, WE'VE ATTEMPTED TO DO THAT.

THE COURT: WELL, I READ THAT. YOU CALLED A MEETING BUT APPARENTLY THE PLAINTIFFS DIDN'T REALIZE THAT IT WAS FOR THE PURPOSE OF RULE 7, THAT IT WAS INSTEAD FOR THE PURPOSE OF A PRETRIAL MEETING.

MR. KING: OF COURSE, THE PRETRIAL RULES DO REQUIRE YOU TO DISCUSS DISCOVERY DISPUTES AND THEY WEREN'T PREPARED TO EVEN DO IT UNDER RULE 9.

THE COURT: I UNDERSTAND, BUT I WANT YOU TO DO IT NOW. ANY OBJECTION TO THAT?

MR. KING: MY ONLY PROBLEM IS, YOUR HONOR, THAT WE'RE NOW SEVEN, ALMOST EIGHT MONTHS, SINCE THESE DOCUMENTS WERE TO BE PRODUCED. I WOULD LIKE SOME DEADLINE.

THE COURT: I'M GOING TO GIVE YOU A DEADLINE.

MR. KING: AND I WOULD ALSO SEEK, THE FACT THAT WE HAVE HAD TO GO THROUGH THIS DEADLINE, SOME KIND OF COSTS AWARDED.

THE COURT: I'LL WITHHOLD JUDGMENT ON THAT. I'LL ULTIMATELY FIND OUT WHETHER THERE'S BEEN ANY IMPROPER FOOT-DRAGGING, BUT HOW LONG WILL IT TAKE YOU TO BE READY, SINCE YOU HAVE BEEN IN THIS CASE THREE WEEKS, HOW LONG [10] WILL IT TAKE YOU TO BE READY TO GO TO THE MAT WITH THESE DEFENDANTS AND PRESENT THE DOCUMENTS THAT YOU ACKNOWLEDGE SHOULD BE PRESENTED AND SHOW THEM WHY YOU SHOULDN'T HAVE TO PRESENT OTHERS?

MR. KROFT: YOUR HONOR, WE WILL PRESENT THE DOCUMENTS THAT WE HAVE SAID THAT WE WOULD PRESENT THEM TODAY, SUBJECT TO WORKING OUT THE LANGUAGE OF A STIPULATED PROTECTIVE ORDER THAT WE SENT THEM LAST WEEK.

WE HAVE THE DOCUMENTS ASSEMBLED. WE HAVE GIVEN COUNSEL A LIST OF THOSE DOCUMENTS; WE'VE TALKING ABOUT 17 OF THE 40 REQUESTS; TWO HAVE BEEN WITHDRAWN BY STIPULATION BECAUSE OF OUR ELECTION TO PROCEED ONLY FOR STATUTORY DAMAGES.

THAT LEAVES 21 OF THE 40 IN DISPUTE. I WOULD BE PREPARED TO TALK TO MR. KING AND JUST WORK

IT OUT AS SOON AS WE CAN DO IT. A MONTH SOUNDS VERY LONG.

THE COURT: ALL RIGHT. WITHIN THE NEXT 10 DAYS.

MR. KROFT: I THINK WE CAN DO IT WITHIN THE NEXT 10 DAYS.

MR. KING: THE ONLY THING I REQUEST IS THAT IF WE ARE UNABLE TO RESOLVE THE DISPUTE, THAT WE CAN HOLD OUR RULE 7 MEETING BY TELEPHONE RATHER THAN FORCE ME TO COME BACK OUT TO CALIFORNIA.

MR. KROFT: YOUR HONOR, THAT OFFER HAS ALWAYS BEEN AVAILABLE TO MR. KING, AS I UNDERSTAND IT, AND IT [11] WILL REMAIN OPEN.

THE COURT: I'M GOING TO BE IN HAWAII FOR THE NEXT SIX TO EIGHT WEEKS. IF YOU WANT TO HAVE A CONFERENCE WITH ME TO WORK IT OUT, WHY, YOU WILL ASSUME RESPONSIBILITY FOR GETTING A CONFERENCE CALL TO ME IN HAWAII.

MR. KING: I WILL, YOUR HONOR.

THE COURT: MY STAFF WILL ACCOMMODATE YOU.

MR. KROFT: YOUR HONOR, I MAY HAVE A SLIGHT MISUNDERSTANDING. I THOUGHT WHAT THE COURT WAS SUGGESTING IS THAT THE FIRST STEP WAS FOR THE PARTIES TO MEET WITHOUT THE COURT.

THE COURT: IT IS, OF COURSE. BUT IF YOU CAN'T MAKE—I EXPECT YOU TO BE ABLE TO WORK OUT MUTUAL ACCOMMODATIONS SO THAT THEY WILL GET THE DOCUMENTS THAT YOU BOTH RECOGNIZE THAT THEY NEED AND THEY WILL BE SATISFIED THAT YOU ARE GIVING THEM ALL THAT THEY ARE ENTITLED TO, BUT IF YOU HAVE ANY SCRAPS ABOUT IT, MAKE A LIST OF THEM AND WE'LL HAVE IT OUT BY TELEPHONE.

MR. KROFT: YOUR HONOR, THERE IS ONE OTHER THING I'D LIKE TO RAISE AS A SUGGESTION, IF IT'S POSSIBLE.

I SAID THAT THERE WERE 21 THAT ARE STILL IN DISPUTE. OF THOSE 21, 17 OF THEM PERTAIN TO—I'M NOT SURE IF IT'S 17 OR 19—THE BULK PERTAIN TO THE ANTITRUST COUNTERCLAIMS.

[12] I THINK I'D LIKE TO ADDRESS THAT FOR JUST A MOMENT, IF I COULD, YOUR HONOR.

MR. IRWIN, THE PRESIDENT OF THE DEFENDANTS, WHO HAS BEEN DEPOSED, STATED THAT HIS MOVIE RENTING BUSINESS GROSSES HIM \$12,000 A YEAR AT HIS HOTEL. THAT'S ALL THE BUSINESS INVOLVES.

HE'S ALSO TESTIFIED THAT HE'S CONTINUED TO DO IT ALL THE WAY THROUGH THIS LITIGATION.

THE COURT: HIS MOVIE RENTALS GROSS IS \$12,000.

MR. KROFT: THAT'S RIGHT.

THE COURT: IS THAT BIG OR LITTLE?

MR. KROFT: I THINK THAT'S INFINITESIMAL FROM HIS STANDPOINT.

FROM OUR STANDPOINT IT'S THE LEAK IN THE DIKE THAT COULD BE MONUMENTAL FOR US, BUT FOR HIM I THINK IT'S VERY SMALL.

ALSO, HE'S CONTINUED TO ENGAGE IN THIS ACTIVITY ALL THROUGH THIS LAWSUIT. WE RECOGNIZE THAT THIS IS AN ISSUE OF LAW THAT OUGHT TO BE DECIDED PERMANENTLY BY SUMMARY JUDGMENT. WE HAVEN'T SOUGHT A PRELIMINARY INJUNCTION.

THE POINT OF ALL THAT IS THIS: HE'S NOT BEING HARMED, IN THE ANTITRUST SENSE, AT THE MOMENT BECAUSE EVEN IF THERE IS A CONSPIRACY AROUND, AND I'VE SEEN NO EVIDENCE OF IT, IT HASN'T DIRECTLY HIT HIM.

[13] WHAT I'D LIKE TO SUGGEST IS THIS, YOUR HONOR: IN OUR VIEW THIS IS ABSOLUTELY A CASE FOR SUMMARY JUDGMENT ON THE COPYRIGHT ISSUES. AS THE COURT HAS HEARD THIS MORNING, THERE IS REALLY NO DISPUTE AS TO WHAT THE DEFENDANTS

ARE DOING. THE ONLY QUESTION IS THE LEGAL EFFECT OF THOSE ACTS.

I BELIEVE THAT A SUMMARY JUDGMENT IN PLAINTIFFS' FAVOR, IF THAT WERE THE WAY THE COURT WERE TO DECIDE THE ISSUE, WOULD ALSO DISCLOSE THE ANTITRUST COUNTERCLAIMS.

I KNOW THAT DEFENDANTS' COUNSEL DISPUTES THAT, BUT HE HAS SAID, IN AN AFFIDAVIT THAT HE PRESENTED IN SUPPORT OF HIS MOTION FOR SANCTIONS HERE, THAT HE DOES BELIEVE THAT IF THERE'S A SUMMARY JUDGMENT IN THIS CASE, AND I THINK THAT MEANS ONE WAY OR THE OTHER, THERE'S EVERY LIKELIHOOD THAT THIS ANTITRUST COUNTERCLAIM WILL BE SETTLED BECAUSE THIS CASE ISN'T ABOUT ANTITRUST. IT'S ABOUT WHETHER THESE DEFENDANTS CAN CONTINUE TO SHOW THE PLAINTIFFS' MOVIES WITHOUT PAYING A LICENSE FEE.

IF THE COURT RULES THAT HE CAN, AS THE COURT HAS RECENTLY OBSERVED, HE'S GOING TO DROP THESE COUNTERCLAIMS, IS MY GUESS. I KNOW I CAN'T MAKE THAT REPRESENTATION, BUT WHAT I WOULD LIKE TO SUGGEST, YOUR HONOR, IS THAT IF THIS SUMMARY JUDGMENT IS HEARD SHORTLY AFTER THE COURT RETURNS FROM ITS VISIT TO THE OTHER DISTRICT COURT, IF WE DELAY DISCOVERY ON THE ANTITRUST COUNTERCLAIMS FOR JUST THAT [14] SHORT PERIOD, WE COULD PROBABLY END UP SAVING ALL OF US AN AWFUL LOT OF EFFORT THAT MAY NOT EVER BE NECESSARY.

MR. KING: YOUR HONOR, MAY I JUST ADDRESS THE POINT HE MADE?

THE COURT: NOT YET. GIVE ME SOME INDICATION AS TO WHAT DOCUMENTS WOULD BE REQUIRED IF I WERE TO ALLOW DISCOVERY ON THE ANTITRUST CASE?

MR. KROFT: EXCUSE ME, YOUR HONOR. LET ME PULL OUT THE REQUEST.

THE COURT: WELL, YOU CAN GIVE A LITTLE SUMMARY, CAN'T YOU?

MR. KROFT: I CAN GIVE A LITTLE SUMMARY. I WANTED TO BE MORE ACCURATE.

NOW, THIS ASSUMES THE WORST, WE CAN'T WORK IT OUT. NUMBER 33, AS I RECALL IT, ASKS FOR ALL COMMUNICATIONS BETWEEN PLAINTIFFS AND EVERY PERSON WHO HAS EVER BEEN AUTHORIZED TO PUBLICLY PERFORM ONE OF THEIR WORKS. THAT MEANS MOTION PICTURE THEATRES, TELEVISION STATIONS, AIRLINES, PRISONS—YOU NAME IT.

THE COURT: THAT'S ENOUGH.

MR. KROFT: THAT'S ENOUGH.

THERE ARE A GROUP OF ABOUT FOUR OTHERS THAT REQUEST US TO DIVULGE DOCUMENTS THAT SHOW ALL COMMUNICATIONS WE'VE EVER HAD WITH ANYBODY ABOUT THE SUBJECT OF RENTING OR SELLING VIDEO CASSETTES OR VIDEO [15] TAPES AND THAT INVOLVES NEGOTIATIONS OF AGREEMENTS WITH ACTORS, WRITERS AND DIRECTORS WHO, AS PART OF THEIR COMPENSATION, ARE ENTITLED TO RECEIVE A PERCENTAGE OF THE PROFITS RECEIVED BY THE STUDIOS FROM THE SALE OF VIDEOCASSETTES AND DISCS, THE LABOR NEGOTIATIONS WITH THE GUILDS ON THE ISSUE, WHICH ENDED UP BEING THE STICKING POINT IN THOSE NEGOTIATIONS AND DARN NEAR CAUSED A STRIKE PRINTING ORDERS, SHIPPING ORDERS, INVOICES, ET CETERA.

THE COURT: THAT'S ENOUGH.

NOW I'LL HEAR FROM MR. KING.

MR. KING: YOUR HONOR, I'LL ADDRESS THESE ISSUES IN THE REVERSE OF WHAT WE HAVE HEARD.

ONE. JUST REQUEST NUMBER 33, WHICH HE SAID WOULD INVOLVE ALL THEATRICAL PERFORMANCES, WE HAVE ALREADY AGREED THAT IS NOT WHAT WE WERE AFTER AND RESTRICTED IT ACCORDINGLY.

ALL THESE OTHER ASPECTS, THE ACTORS' AGREEMENT THEY HAVE NEVER TOLD US ABOUT THEM. WE WOULD BE HAPPY TO ELIMINATE THAT. I THOUGHT THAT WAS THE PURPOSE OF US TRYING TO DISCUSS THIS OUT.

AS TO THE ANTITRUST CLAIMS, THEY ARGUE WE ARE NOT HURT BECAUSE WE'VE ONLY DONE \$12,000 A YEAR RENTAL BUSINESS. THAT IS PRECISELY WHY WE ARE HERE, BECAUSE THAT'S ALL WE'VE DONE.

PRIOR TO THIS SUIT BEING BROUGHT MR. IRWIN HAD [16] HAD DISCUSSIONS WITH A NUMBER OF PEOPLE ABOUT EXPANDING THE VIDEODISC PROGRAM HE HAD IN HIS RESORT TO BE USED IN RESORTS THROUGHOUT THE UNITED STATES AND ELSEWHERE, BUT IT INVOLVED A NICE—A PROGRAM HE WAS INTENDING TO DESIGN.

HE HAS STOPPED THAT ENTIRELY. HE HAS STOPPED ANY RENTAL TO ANY CLUB MEMBERS WHO ARE ALSO NOT RESIDENTS OF THE CLUBS, THAT MEANING LOCAL MEMBERS WHO DON'T STAY AT THE CLUB. HE HAS RESTRICTED HIS ACTIVITIES ENORMOUSLY.

SO THERE IS AN ONGOING AND A REAL ANTITRUST PROBLEM HERE.

ESSENTIALLY, WHAT THE PLAINTIFFS WANT TO SAY NOW, SEVEN-AND-A-HALF, ALMOST EIGHT MONTHS, AFTER THEY WERE SUPPOSED TO ORIGINALLY GIVE THESE DOCUMENTS IS, "LET'S DELAY IT LONGER BECAUSE WE THINK WE ARE GOING TO WIN," AND I DON'T BELIEVE THAT'S PROPER LAW AND THE CASES THAT THE PLAINTIFF CITE THEMSELVES THE COURT ALLOWED DISCOVERY, AT LEAST THE INITIAL DISCOVERY IN ANTITRUST.

THE COURT: YOU HAVE EXPRESSED A WILLINGNESS TO CARVE DOWN YOUR ANTITRUST DEMANDS, PRESUMABLY, RATHER SUBSTANTIALLY.

I'M NOT NOW GOING TO PUT THE ANTITRUST DOCUMENTARY REQUEST OUT OF BOUNDS, BUT YOU SEE

IF YOU CAN WORK OUT AN ACCOMMODATION. I WILL TELL YOU, HOWEVER, THAT IF YOU DON'T WORK OUT AN ACCOMMODATION AND YOU COME TO ME ABOUT IT, I'M GOING TO TAKE THE ATTITUDE THAT WE WILL HEAR [17] A SUMMARY JUDGMENT MOTION WITH RESPECT TO THE PLAINTIFFS' COMPLAINT AS SOON AS I CAN GET BACK HOME AND IF THE ANTITRUST DISCOVERY IS TOO BURDENSOME I WILL DEFER IT UNTIL WE HEAR THE SUMMARY JUDGMENT MOTION.

MR. KING: IF THEY CAN SHOW THAT BURDEN, YOUR HONOR.

THE COURT: THAT'S RIGHT.

MR. KING: WE DO NOT INTEND TO OVERBURDEN THEM. WHAT WE INTEND TO DO IS ASCERTAIN INFORMATION, SOME OF IT QUITE SIMPLE—SAMPLES OF THEIR COPYRIGHT NOTICES ON THEIR DISCS. THEY USE AN FBI SYMBOL TO WARN PEOPLE AWAY, WHAT'S THE AUTHORITY FOR THAT?

THE COURT: THEN TO THE EXTENT THAT YOU FIND THE DISCOVERY REQUEST WITH RESPECT TO ANTITRUST NOT TO BE UNDULY BURDENSOME, I COMMEND TO YOU THAT YOU GIVE IT TO THEM BECAUSE I'LL PROBABLY REQUIRE IT ANYWAY, NOT BEING WILLING TO DEFER CONSIDERATION OF ANTITRUST UNTIL WE HEAR OUR SUMMARY JUDGMENT MOTION.

ON THE OTHER HAND, I TELL YOU, MR. KING, THAT IF THE COURT CONCLUDES THAT IT IS BURDENSOME, I WILL DEFER IT.

MR. KING: I UNDERSTAND.

THE COURT: NOW, YOU HAVE GOT SOMETHING FOR EACH SIDE. AND NOW YOU FELLOWS GET TOGETHER WITHIN THE NEXT 10 DAYS.

[18] MR. KING: YOUR HONOR, THERE ARE ALSO ASPECTS CONCERNING THE ATTORNEY-CLIENT WORK PRODUCT PRIVILEGE. THEY MAKE THOSE NAKED CLAIMS AND HAVE PROVIDED US NO INFORMATION TO

SUPPORT THEM. WE DON'T WANT TO BREACH THEIR ATTORNEY-CLIENT RIGHTS OR THEIR WORK PRODUCT, BUT WHAT WE WOULD LIKE TO KNOW IS WHETHER THEY ARE VALID CLAIMS.

THE COURT: I WOULD TOO. I'M SUSPICIOUS ABOUT IT. SIT DOWN TOGETHER AND—THAT MAY BE ONE OF THE THINGS WE HAVE TO RESOLVE BY TELEPHONE, BUT I'M SUSPICIOUS ABOUT IT.

THIS COURT, ON THE ONE HAND, WILL MAKE A SELF-SERVING STATEMENT, I'M VERY VIGILANT IN TRYING TO PROTECT A VALID ATTORNEY-CLIENT PRIVILEGE, BUT I ALSO HAVE NO SYMPATHY FOR AN ATTEMPT TO COVER A VALID DISCOVERY REQUEST WITH THE INVALID ASSERTION OF ATTORNEY-CLIENT PRIVILEGE, SO WORK THAT OUT TOO, IF YOU CAN.

MR. KING: OKAY, YOUR HONOR.

THE COURT: I THINK UP FELLOWS CAN DO A LOT, NOW THAT YOU ARE IN THIS CASE FOR THREE WEEKS AND HAVE A MORE REALISTIC ATTITUDE ABOUT IT, YOU CAN WORK OUT THOSE THINGS AND I'LL DO THOSE THAT YOU CAN'T.

MR. KING: THE ONLY FINAL THING I DO HAVE, YOUR HONOR, IS THAT THEY DO HAVE NEW COUNSEL AND IT IS OUR SINCERE HOPE THEY WILL COOPERATE WITH US IN RESOLVING [19] THESE MATTERS. WE HAVE GONE THROUGH AN AWFUL LOT OF FRUSTRATION AND EXPENSE. WE WOULD LIKE THAT TO CONTINUE TO BE A CONSIDERED MATTER BEFORE YOU.

THE COURT: I'LL TAKE THAT INTO ACCOUNT. APPARENTLY THESE ARE FILMS PUT OUT BY EACH OF THE RESPECTIVE PLAINTIFFS? THEY ARE NOT JOINT OWNERSHIP OF A PARTICULAR FILM?

MR. KROFT: YOU ARE CORRECT, YOUR HONOR.

THE COURT: ALL RIGHT.

MR. KING: THEY ARE VIDEODISCS, YOUR HONOR. WE WILL EXPLAIN THAT IN OTHER PAPERS. WE STILL HAVE A MOTION FOR SANCTIONS PENDING TOO.

THE COURT: I'LL KEEP THAT PENDING. REMIND ME AT THE APPROPRIATE TIME.

MR. KING: CAN WE PUT THAT THEN ON THE CALENDAR WITH THE SUMMARY JUDGMENT MOTION?

THE COURT: YES, I THINK SO.

MR. KING: OKAY, YOUR HONOR. WE APPRECIATE IT. THANK YOU VERY MUCH.

THE COURT: GOOD LUCK. WITHIN THE NEXT 10 DAYS. (PROCEEDINGS CONCLUDED.)

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
CIVIL MINUTES—GENERAL

Case No. CV 83-2594-WPG
March 24, 1986

Title COLUMBIA PICTURES INDUSTRIES INC, ET AL VS
PROFESSIONAL REAL ESTATE INVESTORS, INC, ET
AL

DOCKET ENTRY

PRESENT:

HON. WILLIAM P. GRAY, JUDGE

Angela Dawson, Deputy Clerk

Les Richter, Court Reporter

ATTORNEYS PRESENT FOR PLAINTIFFS:

Stephen Kroft

Maren Christensen

ATTORNEYS PRESENT FOR DEFENDANTS:

Laura Barns

Jeffrey King

PROCEEDINGS:

HEARING: 1) MOTION OF PLAINTIFFS FOR ORDER
STAYING PROCEEDINGS ON COUNTER-
CLAIMS PENDING RESOLUTION OF
APPEAL

2) MOTION OF DEFENDANTS TO RETAX
COSTS

3) MOTION OF DEFENDANTS TO COMPEL
COUNTERDEFENDANTS TO PRODUCE DOC-
UMENTS, FOR EXPENSES AND
ATTORNEY'S FEES

Case called and counsel present. Counsel argue re stay of proceedings. Court orders all proceedings stayed pending resolution of appeal and orders that no documents be destroyed. Motions re costs and re production are denied without prejudice.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Case Number CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.
Plaintiff(s)

vs

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.
Defendant(s)

FILED
CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NOTICE OF HEARING ON FILING AND SPREADING
JUDGMENT OF COURT OF APPEALS (CIVIL)

PLEASE TAKE NOTICE that the judgment of the United States Court of Appeals, Ninth Circuit, having been received in the above-entitled case, this matter has been set for hearing on March 20, 1989 at 10:00 a.m. o'clock before the Honorable William P. Gray, United States District Judge, in Judge Gray's Courtroom, United States Courthouse, 312 N. Spring Street, Los Angeles, California. It will not be necessary for all counsel to be present at that time.

JA-492

LEONARD A. BROSINAN, CLERK

Dated: March 3, 1989 By: /s/ D.J. Beard
Deputy Clerk

JA-493

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
Civil Minutes - Appeals

CV 83-2594-WPG

ENTERED
CLERK, U.S. DISTRICT COURT
MAR 22 1989
CENTRAL DISTRICT OF CALIFORNIA

Date: March 20, 1989

Title: Columbia Pictures Industries, Inc., et al. -v- Profes-
sional Real Estate Investors, Inc., etc., et al.

PRESENT: THE HON. WILLIAM P. GRAY, JUDGE

D.J. Beard
Deputy Clerk

Lucillie Litsheim
Court Reporter

ATTORNEYS FOR PLAINTIFF

Not Present

ATTORNEYS FOR DEFENDANT

Not Present

PROCEEDINGS: FILING AND SPREADING MANDATE OF
THE NINTH CIRCUIT COURT OF APPEAL

IN COURT COUNSEL NOTIFIED

THE COURT ORDERS that the mandate of
the Ninth Circuit Court of Appeals:

JA-494

Affirming

is hereby filed and spread upon the minutes of this U.S.
District Court. (ENTERED MAR 22 1989)

THIS CONSTITUTES NOTICE OF ENTRY AS REQUIRED
BY FRCP, RULE 77(d).

JA-495

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES REOPENING/CLOSING

No. CV 83-2594-WPG

April 6, 1989

Title COLUMBIA PICTURES IND., INC., ET AL. V.
PROFESSIONAL REAL ESTATE INVESTORS, INC.,
ET AL.

Present WILLIAM P. GRAY, Judge
D.J. Beard, Deputy Clerk
N/A, Court Reporter

Not present
Attorneys for Plaintiff, Stephen A. Kroft

Not present
Attorneys for Defendant, Jeffrey W. King and Laura J.
Barns

In Chambers
Counsel Notified

Other Per Minute Order of 3/24/86 proceedings stayed
pending outcome of appeal. Appeal filed and spread
on 3/20/89, thus reopening case.

Entered APR 7 1989 JS5

Stephen A. Kroft
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SUSMAN

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THIS CONSTITUTES NO-
TICE OF ENTRY, AS RE-
QUIRED BY FRCP, RULE
77(d).

CV 74 (3/87)

Initials of Deputy Clerk DT

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

AND RELATED COUNTERCLAIM

FILED

MAR 27 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

Date: April 17, 1989

Time: 9:30 a.m.

Courtroom No.: 23

REQUEST FOR A RULE 16 CONFERENCE

Pursuant to Rule 16 of the Federal Rules of Civil Procedure and Rule 9 of the Rules of the United States District Court for the Central District of California, Counterclaimants respectfully request that a scheduling conference be held on April 17, 1989. This scheduling conference is necessary to allow the parties to move forward in an expeditious manner on the counterclaims in light of the previous stay of discovery by the Court on those claims.

JA-498

A proposed Scheduling Order is attached.

Respectfully submitted,

COLLIER, SHANNON, RILL & SCOTT

By: Patrick J. Coyne
JEFFREY W. KING
PATRICK J. COYNE

KELLY, HERLIHY & BANE

By: Laura J. Barns
LAURA J. BARNES

Attorneys for Counterclaimants
PROFESSIONAL REAL ESTATE INVESTORS,
INC., and KENNETH IRWIN

Dated: March 27, 1989

[Certificate of Service omitted in this printing]

JA-499

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

COUNTERCLAIM PLAINTIFFS' REPLY MEMORANDUM
IN SUPPORT OF SCHEDULING ORDER NO. 1

DATE: April 17, 1989

TIME: 9:30 a.m.

COURTROOM: 29

FILED

APR 10 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

BY DEPUTY

Counterclaim Plaintiffs, Professional Real Estate Investors, Inc., and Kenneth F. Irwin ("Irwin"), respectfully submit this reply memorandum in response to Counterclaim Defendants' Response to Proposed Scheduling Order No. 1 and in support of the proposed scheduling order.

I. DISCOVERY—GENERALLY

Counterclaim defendants object to Paragraphs C and D of Section 1 of the Proposed Scheduling Order on the grounds that it varies from the provisions of the Local Rules. Counterclaim defendants have not identified any specific points of deviation from the Local Rules or provided any reasons why the provisions of the proposed scheduling order are inappropriate.

The proposed scheduling order is entirely proper and appropriate, nonetheless, Irwin has no objection to following the provisions of the Local Rules with respect to the resolution of discovery disputes.

II. DISCOVERY OF EXPERT WITNESSES

Counterclaim defendants object to paragraphs C and D of Section II of the proposed scheduling order on the same grounds that they objected to paragraphs C and D of Section I of the proposed scheduling order.

The Local Rules provide certain scheduling parameters that govern proceedings in the absence of other specific orders of the Court. The Local Rules do not preempt the Court's power to devise and implement any scheduling order which the Court feels would be better adapted to an individual case. Rather, they are default provision, designed for a "typical" case.

This is not a "typical" case; it involves multiple counterclaim defendants and important legal issues. The proposed scheduling order will better serve the needs of the Court and the parties in the present case than would the default provisions of the Local Rules. There are three principal reasons why the Court should adopt the proposed order.

First, this case will involve substantial third party discovery. Numerous third parties are in possession of factual

information that bear directly on the issues raised in the counterclaims.

Second, Irwin anticipates that this case will involve substantial expert testimony on critical issues with respect to the construction of the copyright law. In view of the need for substantial third party discovery, expert discovery will not likely produce complete and meaningful information until the fact discovery has been completed. Only then will the experts be able to present the factual basis for their opinions in a fashion that will produce meaningful expert discovery. The proposed scheduling order accommodates this concern by setting a period for fact discovery followed by a periods for expert discovery. This will allow development of the bases for the expert opinion testimony to be proffered at trial, while allowing each party ample notice of, and time to respond to, the bases for the expert testimony.

Finally, there has already been substantial delay in commencing discovery with respect to the counterclaims. In fact, counterclaim defendants have thus far provided Irwin no meaningful discovery on the counterclaims. There is a very real danger that certain information has or will be lost or destroyed unless discovery is not commenced promptly.

In the event counterclaim defendants find that they need additional time, or have "legitimate reasons" to defer expert discovery until the conclusion of discovery, the proposed order specifically provides that the Court may make any appropriate ruling with respect to such matters.

III. MOTIONS

Counterclaim defendants object to that portion of Paragraph A of Section III of the proposed scheduling order which would require that dispositive motions be filed only during a 60 period preceding the cutoff date specified. Irwin does not object to counterclaim defendants' proposed

modification of the scheduling order, to allow such motions to be filed at any time on or before the cutoff date.

Counterclaim defendants object further to Paragraph B of Section III which would require all remaining motions to be filed prior to the pretrial conference. Counterclaim defendants, however, provide absolutely no reasons or justification for their objections. As noted above, this case will involve numerous parties, substantial third party discovery, substantial expert testimony, and important issues of statutory construction. The scheduling proposed by Irwin will allow for reasoned consideration of the evidence and will allow the parties to proceed through trial with greater guidance as to the admissibility of certain evidence and other matters. The proposed scheduling order will help prevent surprise and allow for more orderly presentation of the evidence.

IV. PRETRIAL CONFERENCE

Counterclaim defendants also object to Paragraphs B through E of Section IV of the proposed scheduling order. Yet, Counterclaim defendants again provide no reasoning or justification for their objections.

Section IV proposed by Irwin is intended to provide all parties ample notice of the arguments that will be made at trial, as well as to facilitate orderly exchange of exhibits, objections to exhibits, stipulations of fact, and other pretrial matters. The procedures suggested by Irwin incorporate by reference the pretrial statements required by Local Rule 9. The principal difference between Irwin's proposed scheduling order and Local Rule 9 is in the time limits by which certain steps shall be taken. Whereas Local Rule 9 requires that Pretrial Statements shall be filed 21 days before the pretrial conference and that exhibits be exchanged prior to the conference, the proposed order would require that both be completed 30 days prior to the

pretrial conference and that objections to the exhibits also be filed before the pretrial conference.

In view of the factors discussed above, the additional time lead allowed under Irwin's proposed scheduling order should allow a more thorough and complete pretrial of the action. Irwin has also proposed that the parties take additional steps to pre-try the case. Specifically, each party shall submit objections and a statement of stipulated facts, rather than merely discussing and attempting to resolve these matters as set forth in Rule 9. Hence, the scheduling order proposed by Irwin would allow fuller development of these matters at the pretrial conference.

V. TRIAL

Counterclaim defendants also object to Paragraphs B through E of Section IV of the proposed scheduling order. Yet, Counterclaim defendants again provide no reasoning or justification for their objections.

The scheduling order proposed by Irwin would provide slightly longer lead times for submission of proposed jury instructions (ten days rather than seven) and special verdict forms (ten days rather than five). The proposed scheduling order would also resolve other matters not addressed by Local Rule 9. Specifically, the proposed scheduling order requires that proposed *voire dire* questions be submitted ten days before trial. In addition, the proposed scheduling order would require that objections to these materials be filed two days before the pretrial conference, rather than filing objections to proposed jury instructions on the first day of trial as set forth in the Local Rules. Irwin submits that these changes will allow for more complete development of the case at the pretrial conference.

CONCLUSION

For the foregoing reasons, Irwin respectfully requests that Irwin's Proposed Scheduling Order, amended as in-

licated above, be entered and that counterclaim defendants' objection to Irwin's proposed scheduling order be denied.

DATED: April 10, 1989

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

KELLY, HERLIHY & BANE

By: /s/ Laura J. Barns
Laura J. Barns
Attorneys for Counterclaimants
PROFESSIONAL REAL ESTATE
INVESTORS, INC., and KENNETH
IRWIN

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

CIVIL MINUTES—GENERAL

—
CV 83-2594-WPG
—

Columbia Pictures Industries, Inc., et al.

v.

Professional Real Estate Investors, Inc.,

PRESENT:

HON. WILLIAM P. GRAY, JUDGE

**D.J. BEARD
DEPUTY CLERK**

**RON PROVENCIO
COURT REPORTER**

PROCEEDINGS:

RULE 16 CONFERENCE

Court and Counsel discuss status of case. Counsel indicates counterclaims pending. Court signs scheduling order this date.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
HONORABLE WILLIAM J. REA, DISTRICT JUDGE
PRESIDING

NO: CV 83-2594-WPG

COLUMBIA PICTURES, etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, etc., et al.,
Defendants.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
MONDAY, APRIL 17, 1989

[3] LOS ANGELES, CALIFORNIA; MONDAY, APRIL 17,
1989

THE CLERK: Item number one, CV-83-2594, Columbia Pictures Industries, Incorporated, vs. Professional Real Estate Investors.

Counsel, your appearances, please.

MR. KROFT: Good morning, your Honor; Stephen Kroft and James Seal for the plaintiff and counter-defendant.

MR. SEAL: Good morning.

THE COURT: All right, gentlemen.

MR. TREAM: Jeffrey Tream, your Honor, for the defendant and counter-plaintiff.

THE COURT: Yes.

Has the mandate been spread on this case?

MR. KROFT: Yes.

MR. TREAM: We just got it earlier last week, about Wednesday.

THE CLERK: Yes, it has been filed.

MR. TREAM: It has been.

THE COURT: It has been, okay.

What else do we have to do in this case?

MR. TREAM: I think, your Honor, we need to set up a schedule, but I don't think we're very far apart anyway. [4] When we had filed our motion for Rule 16, the stay on discovery had not been lifted, the latest schedule lifted that stay of discovery.

THE COURT: I know, but the defendants prevailed in this case, isn't the case open?

MR. TREAM: No, we have counterclaims, your Honor, that continue to be pending. You stayed discovery on those counterclaims during the course of appeals.

THE COURT: What do you seek?

MR. TREAM: We're seeking damages for antitrust and unfair competition.

THE COURT: What's the antitrust violation?

THE COURT: The antitrust violation is that they've come to monopolize on the video distribution market in the hotel-resort market. They did it with a number of means, amongst them we believe to be conspiracies and contractual terms used to make sales to hotels that may use videos for rental.

Suits like this threaten to—rather, suits like this, misuse of their copyrights—

THE COURT: Well, didn't they have a good-faith belief that the—

MR. TREAM: We do not believe they did, your Honor. We believe we could prove that.

THE COURT: You gave the Court of Appeals lot of [5] trouble, didn't you?

MR. TREAM: I don't know, it was a 3-0 decision, your Honor. The Court of Appeals had a lot of trouble finding a sitting panel, it was a party of six judges, mostly because of changes in the panel. But the decision did not reflect trouble, the decision was—

THE COURT: Well, you're going to have to show that they had motives other than their good faith belief that their copyright covered the situation.

MR. TREAM: Your Honor, we're going to have to show they attempted to monopolize. Amongst the things that we can show, if we use the basis of this lawsuit as an attempt to monopolize, is that the lawsuit was brought knowing they didn't have the rights they were trying to assider (phonetic).

THE COURT: Well, if they had, if they believed that they had a—that their copyright covered this type of claim, why, then, they're home free, aren't they?

MR. TREAM: I don't necessarily think they are home free, there are other elements to our monopolization claim. We certainly think that reduces the claim we have, and then certainly the aspect of that it revolves around this lawsuit. There is other activity, as well.

THE COURT: Like—

MR. TREAM: Plus we do not believe that a good [6] faith case.

THE COURT: All right. Well, let's—if the trier of fact finds that they had a good faith belief that their copyright

covered what your people were doing, what other strings do you have to your bolt?

MR. TREAM: We have that they have attempted to contract with people who manufacture this to—the discs and the tapes, videos—to restrain them from selling those, providing copies of those, to resorts and hotels such as ours. So they've conspired in that way to try and restrict the development of this market.

THE COURT: Well, were they successful? What are your damages in that respect?

MR. TREAM: We have basically been procluded from developing a video disc distribution and video tape distribution system for hotels. I think, through the course of the trial, we will show that we attempted to do so and were rebuffed by the fear of this litigation and by the interference of the defendants.

We're not the only person they encroach, we happen to be the only person to litigate the case.

THE COURT: How many hotels do you have?

MR. TREAM: We have one resort, but we went to several chains and other hotels to see if we could institute a video system in those hotels, and we were rebuffed by the [7] fear of this lawsuit and by other fears of the studio's might.

THE COURT: What do you contend your damages are?

MR. TREAM: I—we contend our damages, your Honor—we've not yet calculated them, simply because we've gotten total six documents in discovery relating to these counterclaims outstanding, those discovery requests filed a year before this Court's decision, notwithstanding four years before the Court of Appeals' decision.

You stayed that discovery; we'd like to reopen that discovery and move forward.

THE COURT: Well, I guess you have a right to do so. But are you quite sure that the likelihood of recovery and the amount of recovery justifies this further litigation?

MR. TREAM: I believe it is, your Honor. I believe it is. We think the likelihood of recovery is high, we think the amount of damages will also be substantial. There are other video companies that have developed programs in Europe where they were not procluded and they have been very successful—

THE COURT: Well, if they had a valid—if they had an honest belief that their copyright covered the renting of a tape in a hotel for use in a hotel room, then they would have a right to try to persuade—to cause [8] others to understand that if they violated their copyright on 'the matter, that they contended you were doing, that litigation would follow, didn't they?

MR. TREAM: You certainly cut to the heart of it, your Honor; that's if they had that belief.

THE COURT: Yes.

MR. TREAM: And I do not believe they could have legitimately had that belief, based upon the records they developed and the very copyright law they sought protection under.

THE COURT: But your case basically hinges on your being able to show they didn't have that belief, doesn't it?

MR. TREAM: I think that is probably correct, your Honor.

THE COURT: All right. Well, now, with respect to this scheduling order, you agreed on part of it.

MR. KROFT: Yes, yes, your Honor. We basically agreed on the contours of the timing and so on. I understand now Mr. King does not object our making a dispositive

motion even prior to the closing of the discovery because we think that the suit does not have merit.

And this is not a pattern of baseless claims, this is a single lawsuit and in the Ninth Circuit authority they must show it is baseless, not just unsuccessful, and [9] secondly, that it was coupled with extraneous, extrajudicial anti-competitive conduct which we don't think they can show, either.

So we're proceeding at pace with a dispositive motion even as they proceed with discovery.

THE COURT: All right. Then your—then the defendant and counter-claimant is entitled to discovery to try to establish this lack of good faith, and you are—you say you're proceeding looking toward a motion for summary judgment?

MR. KROFT: Yes, because I think under the Ninth Circuit authority, the criteria is whether the suit was baseless, and I think that is something that the Court could rule on as a matter of law and discovery is not going to help them on that.

MR. TREAM: That's not quite true, your Honor. Certainly we have a right to discover whether they _____ this or not, and, in fact, the most recent decisions on the concept of the Doctrine of Dor Pennington (phonetic), which would protect any antitrust liabilities, someone exercising their First Amendment rights to petition in court.

They have found even where they've been successful, that there still could be an antitrust liability, a recent \$1 billion judgment was entered against [10] the railroad down in Texas involving the very claim because they brought the suit not caring whether they won or not, but caring whether they could slow down or tend to perpetrate the monopoly of the transportation cold in that case. (?)

So the answer is not simply a matter of whether you thought their claim had more merit than we did, but

whether they, in fact, what their intent was and what they knew of it during the process of bring this case, what they were aware of.

THE COURT: Well, as you know, I found that their copyright did not cover this situation because it was not a—I found that it was not a public display—public performance—what it is?

MR. TREAM: Yes, public performance, your Honor.

THE COURT: Public performance. But I had a tough time with it, and I can understand how the plaintiff might in good faith conclude that you were violating his copyright.

MR. TREAM: I understand that, your Honor. I think we're entitled to discovery to determine whether they believed that—

THE COURT: All right.

MR. TREAM: —and whether third parties had informed them of the lack of this ability—

[11] THE COURT: Well, all right.

MR. TREAM: —to pursue these claims or the lack of authority to pursue these claims.

? THE COURT: That depends upon who the third parties are. If it's his wife, then I don't think he has a good cause here. Why, that's not like an expert—we just had one of these before the Supreme Court.

MR. TREAM: I agree with you, your Honor. I do not propose to say that this was—

THE COURT: Well, what must I do this morning?

MR. TREAM: I think that there's two things. We need to agree on a scheduling order, we have the basic schedules, I think the only real disputes over them are we have set off experts to be discovered near the end of the case.

I don't think plaintiffs really disagree with that, I think they may have misread it. We said they had 60 days after—must identify experts by the close of discovery and we have 60 days to oppose them.

That gives them more time, not less time, I think that may just—they seem to complain that we may be cutting off their expert discovery rights. We're extending those discovery rights. Where the rest of discovery may close, expert discovery will continue.

There's nothing in the local rules that [12] either prevent or address this issue. We were just simply recognizing that—

THE COURT: All right.

MR. TREAM: —in the antitrust case and the experts will be identified in the end.

THE COURT: What must I do this morning?

MR. TREAM: I'd like to enter into a scheduling order to move this case along.

THE COURT: All right.

MR. TREAM: There is a motion to compel the outstanding discovery that's been fully briefed.

THE COURT: Well, I have a response to your scheduling order number one, your scheduling order number one must be here.

MR. TREAM: I do have a copy of it, your Honor, if you would—

THE COURT: No, I've got it here, I'm sure.

MR. KROFT: Your Honor, with respect to experts, our complaint with the order was that they could designate their experts at any time and then you would have 60 days to conduct discovery. If they designated someone to—

morrow, our time to depose the expert would expire within 60 days.

We just wanted to make it clear that any expert could be deposed at any time prior to the discovery cutoff with respect to experts.

[13] THE COURT: All right.

MR. KROFT: I think that's the only—

MR. TREAM: That's the only—I think we're dealing with something cutting it off on March 2nd or 3rd, 1990, not—they're not going to cut it off, they're going to extend it.

THE COURT: All right. Here's the scheduling order number one, all such discovery shall be completed by—all discovery shall be initiated by December 31st?

MR. TREAM: Yes, your Honor.

THE COURT: Why so late?

MR. TREAM: Well, your Honor, we have had no discovery in this case yet. We need an opportunity to begin discovery.

THE COURT: Yes, I know, but—

MR. TREAM: There will be—I think there will be considerable third-party discovery.

THE COURT: But initiated, why do you have to wait until December 31st to initiate it?

MR. TREAM: I don't need to—you must have initiated all of it by then. In other words, it will—actually, discovery closes on the 15th, your Honor—

THE COURT: All right.

MR. TREAM: —of February 1990. It just means that past December 31, 1989, you can't initiate any more [14] even if you want to.

THE COURT: All right. Do the cross-defendants agree on that?

MR. KROFT: December 31 is fine, your Honor.

THE COURT: All right. That will be the order. All such discovery shall be completed by February 15, 1990.

Is that satisfactory?

MR. TREAM: I believe that is satisfactory, your Honor.

MR. KROFT: That is, your Honor. The order should be clarified, though, that any motion heard be heard by February 15th.

Is that what is contemplated?

MR. TREAM: I think later on that is contemplated, as well.

THE COURT: All right. We'll see. All discovery disputes—no, no, I do my own discovery disputes.

MR. TREAM: We have agreed to—to strike that, your Honor.

THE COURT: We'll strike C.

MR. TREAM: Yes.

We've agreed to strike D, it's not necessarily—it's not inconsistent with your Local 7.15(2), it's slightly different.

THE COURT: All right. We'll strike D, [15] gentlemen?

MR. TREAM: Yes.

MR. KROFT: Yes, your Honor.

THE COURT: Discovery of expert witnesses—is A satisfactory?

MR. TREAM: Yes.

MR. KROFT: Yes, your Honor.

THE COURT: and B?

MR. KROFT: B is satisfactory, your Honor.

THE COURT: And C?

MR. KROFT: C was where we had the problem, I think it was a drafting problem rather than a substantive problem.

MR. TREAM: It shall be completed within 60 days after December 31st, 1989.

Is that satisfactory?

MR. KROFT: Yes, that's correct. Just put in a date.

THE COURT: Well, then put a date. 60 days is about February 28th, isn't it? Is that all right?

MR. KROFT: Yes, your Honor.

THE COURT: Shall be completed by February 28th.

MR. TREAM: D was taken out as instructed.

THE COURT: And D will be struck.

MR. KROFT: Correct.

[16] THE COURT: MOTions—dispositive motions shall be filed by April 15th.

Is that all right?

MR. KROFT: Yes, your Honor.

THE COURT: Shall be filed—on dispositive motions shall be filed by April 15th.

MR. TREAM: Given the potential complexities, we had extended slightly the briefing schedule, your Honor, as we've had done in the motions, summary judgment motions on the copyright counts. And I believe the plaintiffs have objected to that. I don't know if their objection—

MR. KROFT: Well, your Honor, with respect to dispositive motions, I think the opposition scheduled hear-

ing is fine. With respect to the motions only and with respect to other motions, we'll just have local rules govern.

THE COURT: All right.

MR. TREAM: I think that's fine.

THE COURT: Then A, I just changed the first sentence of A to say:

"Shall be filed by April 15th, 1990. Opposition briefs shall be filed and served in 30 days of service of the motion being opposed."

And we said when motions have to be filed.

[17] Is that all right?

MR. KROFT: Yes, sir.

THE COURT: And, B, all remaining motions shall be filed prior to pretrial, I suppose that's on.

MR. KROFT: Well, your Honor, this would appear to limit motions in limine regarding evidence and things of that nature, and it seems that the dispositive motions are going to be heard after the pretrial conference. This may _____, in fact, motions in limine and so forth.

I—obviously, motions to amend the pleadings should be heard prior to the pretrial conference, but with respect to motions regarding the conduct in the trial are excluded or included into evidence, it seems to me those should be allowed to go forward just in accordance with the local rules.

THE COURT: Well, then we can strike—what about striking B?

MR. TREAM: We can strike it, your Honor. We're simply attempting to move the trial along expeditiously by having a—

THE COURT: Well, let's—

MR. TREAM: —logical sequence of motion filing.

THE COURT: All right. Well, the local rules will cover that.

MR. KROFT: Your Honor, back up in A of sub-part 3 [18] is the reply memoranda to 20 days after the service of the opposition memorandum.

THE COURT: And reply memorandums—yes.

Is that all right?

MR. KROFT: With us, your Honor, yes.

THE COURT: All right.

MR. TREAM: Does the Court have lead time it wants to have all memoranda in prior to the hearing?

THE COURT: Sure. The local rules provide for that, too, I think.

MR. KROFT: Yes, it's seven days.

THE COURT: That would be—

MR. TREAM: Yes, it's seven days.

THE COURT: Pretrial conference—all right. Is A-4-A all right?

MR. KROFT: Yes, your Honor.

THE COURT: 4-B?

MR. KROFT: Well, when we get into B and C, D and E, we're really aggregating and modifying the local rules.

THE COURT: Yes. Why don't we just adhere the local rules and strike B, C and D.

MR. TREAM: Your Honor, the reason we did that was because of the potential complexity, we thought to give ourselves additional time to deal with it. That was the only reason we added slightly more time.

[19] THE COURT: How much more did you add?

MR. TREAM: Um, I think we—I'll have to do this—I think we added 10 days.

THE COURT: All right. Well, that's all right, isn't it?

MR. TREAM: But it may be we added 15, I just don't recall.

THE COURT: All right. If all you're doing is adding a few days, I don't mind that.

Well, so shall we leave B, C and D?

MR. TREAM: We also added in an objection to trial exhibits, which is not covered by your local Rule 9—

THE COURT: All right.

MR. TREAM: —filed prior to the retrial. That we did add, an addition that's neither covered nor overruled by the local rule.

THE COURT: All right. I'm about to leave Roman Numeral IV alone; is that satisfactory, gentlemen?

MR. KROFT: That's satisfactory.

THE COURT: All right. Five.

MR. TREAM: Your Honor, what we did here was the local rule requires most of the—the jury instructions be given seven days. Again, because this is an antitrust case, we extended to ten. The local rule doesn't require the voir dire of special jury verdict form, we simply added that in.

[20] THE COURT: Any problem?

MR. KROFT: Well, again, I think we prefer to go with the local rules. You know, a lot of time the special verdict form depends on what issues are left in and so on. And the local rules do cover this.

THE COURT: Well, let's leave it. Let's—he has—the defendant and cross-complainant has a substantial burden here, let's let him have the schedule.

MR. TREAM: Thank you, your Honor.

THE COURT: All right.

MR. TREAM: The last part is B, which simply—I don't believe the local rules deal with at all, saying that the objections from the other side—the objections to each side's voir dire and jury instructions and verdict forms should be filed two days before trial.

THE COURT: All right.

MR. KROFT: But I think we might say two court days since the trial might begin on Tuesdays.

THE COURT: Two court days. All right. I'll insert "court."

MR. TREAM: That is—we have no objection, obviously, on that.

THE COURT: All right.

All right, gentlemen, I will sign the order as we've modified it.

[21] MR. TREAM: Your Honor, in addition, there is a motion to compel we have, again, to see six documents to our discovery motions. We have briefed it, we have argued it. I don't know if there's anything more to be done but to—

THE COURT: You've briefed it and argued it?

MR. TREAM: We've briefed it and argued it last—in March of 1986—(year??)

THE COURT: Well, no wonder I haven't heard it.

MR. TREAM: I think that's probably right, your Honor.

MR. KROFT: Your Honor, I think all of this could be an excuse for faulty memory, a little over three years. We have briefed it, I don't believe we argued it because the

day we showed up for the hearing the court stayed all discovery and stayed any argument on it.

THE COURT: Oh.

MR. TREAM: I think that may be correct. I apologize if I misstated it.

THE COURT: Well, do you have any—what issues are there now with respect to discovery?

MR. TREAM: I think there's still a—remain, I think what I would like to do, unless Mr. Kroft objects, if simply try to work it out. If not, renew our motion, try to waive oral argument—

THE COURT: All right. Why don't you do that.

[22] MR. KROFT: Your Honor, I'm not sure I'm prepared to waive oral argument at this point since I don't know what issues would be left. But we're more than happy to try and work it out.

THE COURT: All right. See if you can work it out. If you can't, let me know, we'll do it informally.

MR. TREAM: Your Honor, there's one other thing is that during this dispute over discovery, plaintiffs had agreed they would produce some things, but they've never produced—it's very hard to understand whether in the discovery process whether we're being over-reaching unless we see at least the things they agreed to.

THE COURT: Remind them of it, and if they don't do it, seek Court's help and I'll give you help and maybe sanctions.

MR. TREAM: Okay, your Honor, because what I'm looking for as if we can at least get the documents we've agreed to and agree to disagree on the others, maybe once I review them I can make a—

THE COURT: Okay.

MR. TREAM: —I can't at all at this time.

THE COURT: Good counselor can work out matters like that.

MR. TREAM: I think we're good counselors, your Honor.

[23] MR. KROFT: We'll strive to.

THE COURT: All right. And I will change the order as we've indicated and sign it. And I'll look to you to work out the—the discovery scraps. And if you can't do it, let me know, we'll resolve it informally.

MR. KROFT: Thank you, your Honor.

THE COURT: All right.

MR. TREAM: Thank you, your Honor.

MR. SEAL: Thank you, your Honor.

(Which were all the proceedings held in the above-entitled matter on the date aforesaid.

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

—
No. 83-2594 WPG
—

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

AND RELATED COUNTERCLAIM

—
FILED

MAR 29 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE
—

Date: April 17, 1989

Time: 9:30 a.m.

Courtroom No.: 23

SCHEDULING ORDER NO. 1

The following order shall govern the manner in which discovery and pretrial proceedings shall be carried out during the course of the litigation unless otherwise ordered by the Court. There is nothing in the Scheduling Order that will in any way preclude the Court from making any change to the Scheduling Order that it deems necessary or appropriate.

I. DISCOVERY—GENERALLY

A. All discovery, with the exception of discovery of expert witnesses as described below in Section II of this Order, shall be initiated by December 31, 1989.

B. All such discovery shall be completed by February 15, 1990.

C. All discovery disputes, upon the Court's request, shall be submitted to a United States Magistrate and shall be submitted in accordance with the Rules of this Court governing motions regarding discovery disputes.

D. No motion regarding discovery shall be filed until the parties have conferred and made a good faith effort to resolve the dispute, and each such motion shall include an affidavit or declaration from the attorney for the moving party certifying that such efforts have been made and have failed to resolve the dispute.

II. DISCOVERY OF EXPERT WITNESSES

A. On or before December 31, 1989, the parties shall serve on each other identification of all of their expert witnesses, copies of any reports prepared by those expert witnesses, and copies of all documents reviewed by those expert witnesses.

B. Any person not identified pursuant to Paragraph II.A. above shall not be permitted to testify as an expert witness at trial.

C. Depositions of all expert witnesses shall be completed within sixty days after receipt of the information described in Section II.A. above.

D. All discovery disputes regarding expert witnesses shall be resolved pursuant to the procedure set forth in Section I of this Order.

III. MOTIONS

A. All dispositive motions shall be filed by April 15, 1990. Opposition brief shall be filed and served within thirty days of service of the motion being opposed, and reply memoranda should be filed and served twenty days after service of the opposition memorandum.

B. All remaining motions, including motions to limit or to exclude evidence and to amend the pleadings, shall be filed prior to the pretrial conference.

IV. PRETRIAL CONFERENCE

A. A pretrial conference shall be scheduled after the Court rules on all dispositive motions on such date as may be convenient to the Court and the parties.

B. Not less than thirty days prior to the pretrial conference, the parties shall file and serve Pretrial Statements as set forth in Rule 9 of the Rules of the United States District Court for the Central District of California.

C. Not less than thirty days prior to the pretrial conference, the parties shall exchange copies of all exhibits that they intend to offer into evidence at trial.

D. Prior to or at the pretrial conference, each party shall file and serve its objections to exhibits. Any exhibit not objected to prior to or at the pretrial conference shall stand admitted into evidence.

E. Prior to the pretrial conference, counsel for defendants/counterclaimants shall arrange, by advance notice, a conference of counsel in order to discuss and prepare stipulated facts. A statement of stipulated facts shall be submitted at the pretrial conference.

V. TRIAL

A. Ten days before trial, each of the parties shall file and serve:

1. A proposed descriptive statement of the case to be used by the Court prefatory to voir dire examination;
2. Proposed voir dire questions;
3. Proposed special jury instructions with authorities cited; and
4. Any proposed special verdict form.

B. Two Court days before trial, each party shall file and serve all objections to any opposing party's proposed voir dire questions, prefatory statement, jury instructions, and verdict form.

Respectfully submitted,

COLLIER, SHANNON, RILL & SCOTT

By: /s/ Patrick J. Coyne

JEFFREY W. KING

By: PATRICK J. COYNE

KELLY, HERLIHY & BANE

By: /s/ Laura J. Barns

LAURA J. BARNES

Attorneys for Counterclaimants
PROFESSIONAL REAL ESTATE INVESTORS,
INC., and KENNETH IRWIN

Dated: March 27, 1989

SO ORDERED:

Dated: April 17, 1984

/s/ William P. Gray

William P. Gray

United States District
Court Judge

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV-83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED

SEP 13 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

NOTICE OF DEPOSITION OF SPECTRADYNE

PLEASE TAKE NOTICE that on November 9, 1989, pursuant to Rules 30 and 45 of the Federal Rules of Civil Procedure, and before an individual duly authorized to administer oaths, defendants and counterclaimants Professional Real Estate Investors Inc., and Kenneth F. Irwin will take the deposition, upon oral examination, of Spectradyne, 1501 North Plano Raod, Richardson, Texas 75081, by:

- (1) those persons most knowledgeable of, and designated by Spectradyne to testify on, the subject matter identified in the attached Appendix A, and

- (2) those officers, managing agents or other persons having possession, custody, or control of documents described in the attached Appendix A.

The deposition will commence at 9:00 a.m. at the offices of Bickel & Brewer, 1800 Trammell Crow Center, 2001 Ross Avenue, Dallas, Texas 75201, or at such other time and place as counsel for the parties and the deponent may agree, and will continue from day-to-day until completed. You are invited to attend and cross examine.

The deposition shall be for the purpose of discovery, to perpetuate the testimony of the witness for use at trial, and for any other purpose(s) allowed by the Federal Rules of Civil Procedure and/or the Federal Rules of Evidence.

Pursuant to the provisions of 30(b)(1), Fed. R. Civ. P., you are hereby notified that a subpoena duces tecum pursuant to Rule 45, Fed. R. Civ. P. will be issued requiring the deponent to bring to the deposition the documents identified in the attached Appendix A.

Please identify by October 11, 1989, the person or persons designated by Spectradyne to testify on the subject matters of paragraphs one and two above.

COLLIER, SHANNON & SCOTT
JEFFREY W. KING
PATRICK J. COYNE
DAWN M. DISTEFANO
1055 Thomas Jefferson Street, N.W.
Washington, DC 20007
(202) 342-8400

KELLY, HERLIHY & BANE
LAURA J. BARNES
500 North State College Blvd.
Suite 440
Orange, California 92668

By: Patrick J. Coyne
PATRICK J. COYNE
Counsel for Defendants and
Counterclaimants Professional
Real Estate Investors, Inc.,
and Kenneth F. Irwin

Dated: 9/13/89

[Appendix A omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV-83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

NOTICE OF DEPOSITION OF MOTION PICTURE
ASSOCIATION OF AMERICA, INC.

FILED

SEP 13 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

PLEASE TAKE NOTICE that on October 24, 1989, pursuant to Rules 30 and 45 of the Federal Rules of Civil Procedure, before an individual duly authorized to administer oaths, defendants and counterclaimants Professional Real Estate Investors Inc., and Kenneth F. Irwin will take the deposition, upon oral examination, of Motion Picture Association of America, Inc. ("MPAA") 1600 Eye Street, N.W., Washington, D.C. 20006, by Mr. Jack Valenti.

The deposition will commence at 9:00 a.m. at the offices of Collier, Shannon & Scott, 1055 Thomas Jefferson Street, N.W., Washington, DC 20007, or at such other time and place as counsel for the parties and the deponent may agree, and will continue from day-to-day until completed. You are invited to attend and cross examine.

The deposition shall be for the purpose of discovery, to perpetuate the testimony of the witness for use at trial, and for any other purpose(s) allowed by the Federal Rules of Civil Procedure and/or the Federal Rules of Evidence.

Pursuant to the provisions of 30(b)(1), Fed. R. Civ. P., you are hereby notified that a subpoena *duces tecum* pursuant to Rule 45, Fed. R. Civ. P. will be issued requiring the deponent to bring to the deposition the documents identified in the attached Appendix A.

COLLIER, SHANNON & SCOTT
JEFFREY W. KING
PATRICK J. COYNE
1055 Thomas Jefferson Street, N.W.
Washington, DC 20007
(202) 343-8400

KELLY, HERLIHY & BANE
LAURA J. BARNES
500 North State College Blvd.
Suite 440
Orange, California 92668
(714) 543-0535

Dated: September 13, 1989 By: /s/ Patrick J. Coyne

PATRICK J. COYNE

Counsel for Defendants and
Counterclaimants, Profes-
sional Real Estate Investors,
Inc., and Kenneth F. Irwin

[Appendix A omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV-83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

NOTICE OF DEPOSITION OF RCA COLUMBIA
PICTURES

FILED

SEP 13 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

PLEASE TAKE NOTICE that on October 19, 1989 pursuant to Rules 30 and 45 of the Federal Rules of Civil Procedure, before an individual duly authorized to administer oaths, defendants and counterclaimants Professional Real Estate Investors Inc., and Kenneth F. Irwin will take the deposition, upon oral examination, of RCA Columbia Pictures ("RCA") 3500 West Olive Avenue, Third Floor, Burbank, California 91505, by:

- (1) those persons most knowledgeable of, and designated by RCA to testify on, the subject matter identified in the attached Appendix A, and
- (2) those officers, managing agents or other persons having possession, custody, or control of documents described in the attached Appendix A.

The deposition will commence at 9:00 a.m. at the offices of Kelly, Herlihy & Bane, 500 North State College Blvd., Suite 440, Orange, California 92668, or at such other time and place as counsel for the parties and the deponent may agree, and will continue from day-to-day until completed. You are invited to attend and cross examine.

The deposition shall be for the purpose of discovery, to perpetuate the testimony of the witness for use at trial, and for any other purpose(s) allowed by the Federal Rules of Civil Procedure and/or the Federal Rules of Evidence.

Pursuant to the provisions of 30(b)(1), Fed. R. Civ. P., you are hereby notified that a subpoena *duces tecum* pursuant to Rule 45, Fed. R. Civ. P. will be issued requiring the deponent to bring to the deposition the documents identified in the attached Appendix A.

Please identify by October 5, 1989 the person or persons designated by RCA to testify on the subject matters of paragraphs one and two above.

JA-534

COLLIER, SHANNON & SCOTT
JEFFREY W. KING
PATRICK J. COYNE
1055 Thomas Jefferson Street, N.W.
Washington, DC 20007
(202) 343-8400

KELLY, HERLIHY & BANE
LAURA J. BARNES
500 North State College Blvd.
Suite 440
Orange, California 92668
(714) 543-0535

Dated: 9/13/89

By: /s/ Patrick J. Coyne

PATRICK J. COYNE

Counsel for Defendants and
Counterclaimants, Profes-
sional Real Estate Investors,
Inc., and Kenneth F. Irwin

[Appendix A omitted in this printing]

JA-535

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIM

**NOTICE OF HEARING ON PLAINTIFFS' MOTION FOR
SUMMARY JUDGMENT AS TO FIRST, SECOND AND
THIRD COUNTERCLAIMS AND FOR DISMISSAL OF
REMAINING PENDENT CLAIMS**

Date: December 11, 1989

Time: 10:00 a.m.

TO THE DEFENDANTS AND COUNTERCLAIM
PLAINTIFFS PROFESSIONAL REAL ESTATE INVESTORS,
INC., ET AL. AND TO COLLIER, SHANNON & SCOTT,
THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that on December 11, 1989, at
10:00 a.m., or as soon thereafter as counsel may be heard,
in the courtroom of the Honorable William P. Gray, United
States District Judge, located at the Courthouse of the
United States Court of Appeals for the Ninth Circuit, 125
South Grand Avenue, Pasadena, California, plaintiffs and
counterclaim defendants will move the court to enter sum-
mary judgment in their favor as to the First, Second and

Third Counterclaims alleging violations of the federal antitrust laws and will further move the court to dismiss the remaining pendent claims asserted under state law against the counterclaim defendants. Said motion will be made pursuant to Rule 56, Federal Rules of Civil Procedure, on the grounds set forth in the accompanying "Memorandum of Points and Authorities Submitted by Plaintiffs in Support of Their Motion for Summary Judgment as to First, Second and Third Counterclaims and for Dismissal of Remaining Pendent Claims" and will be based upon the pleadings and records on file herein and the judgment of the United States Court of Appeals for the Ninth Circuit in this matter.

Dated: September 22, 1989

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
MARC D. WINSBERG

By: /s/ James L. Seal
James L. Seal
Attorneys for Plaintiffs/
Counterclaim Defendants

[Verification and Proof of Service omitted
in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,
vs.
PROFESSIONAL REAL ESTATE INVESTORS, INC.,
etc., et al.,
Defendants.
AND RELATED COUNTERCLAIM.

NOTICE OF LODGING OF COPY OF HEARING
TRANSCRIPT

Date: December 11, 1989
Time: 10:00 a.m.

TO THE DEFENDANTS AND COUNTERCLAIM
PLAINTIFFS PROFESSIONAL REAL ESTATE INVESTORS,
INC., ET AL. AND TO COLLIER, SHANNON & SCOTT,
THEIR COUNSEL OF RECORD:

PLEASE TAKE NOTICE that on today's date the plaintiffs and counterclaim defendants lodged with the court a copy of the "Reporter's Transcript of Proceedings" held in this matter on March 24, 1986, in the form appended hereto as Exhibit 1.

JA-538

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
MARC D. WINSBERG

By James L. Seal
James L. Seal
Attorneys for Plaintiffs/
Counterclaim Defendants

Dated: September 27, 1989

JA-539

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV-83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, Inc., et al.,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., ET AL.,
Defendants,

AND RELATED COUNTERCLAIM.

SPECTRADYNE'S OBJECTION TO DEPOSITION
SUBPOENA PURSUANT TO F.R.C.P. 45(D) (1)

Pursuant to Federal Rules Civil Procedure Rule, 45(d)(1), Spectradyne, Inc., hereby objects to production, inspection and copying of the materials designated in the deposition subpoena served upon Spectradyne on September 14, 1989, on the following grounds:

Objection To Designation Request

Spectradyne objects to the subpoena duces tecum because it does not describe with reasonable particularity the matters on to "the subject matter identified in the attached Appendix A," but there is no such "subject matter" identification in that appendix. Spectradyne is therefore unable to make the witness designation required under Fed. R. Civ. P 30 (b) (6). Spectradyne further objects to the request to file such designation in advance of the date of the deposition.

General Objections As To All Document Categories

1. There is no time period specified in any of the document categories. The requests are therefore overbroad, and the subpoena requests documents with no relevance to the subject litigation.

2. The documents requested include confidential Spectradyne business information which must not be disclosed to competitors of Spectradyne. An "attorneys' eyes only" protective order is the only reasonable way to protect Spectradyne, which is only a possible witness for this litigation. Spectradyne will not produce any confidential material until a satisfactory protective order limiting disclosure to officers of this Court is agreed upon by the parties to this action.

3. The document requests are framed in broad categories which give little indication as to which files need to be searched or the time period covered. Consequently, Spectradyne may need to inspect numerous cartons of documents which have been sent to storage, and hire special assistants to perform the search necessary to comply with the subpoena duces tecum. Depending on Defendant's narrowing of his request, this will require considerable time to accomplish, and will involve significant expense to Spectradyne. Therefore, Spectradyne will not begin this search until (1) agreement has been reached narrowing the document requests, in order to avoid duplicative searches and (2) reasonable costs are advanced to Spectradyne.

4. Spectradyne further objects generally because the subpoenaed documents call for Spectradyne's privileged attorney work product and client-communications and because the requests are overbroad and not reasonably calculated to lead to admissible evidence.

September 27, 1989
date

Spectradyne, Inc.

By: David E. Tripp
David E. Tripp
Vice President &
General Counsel
California Bar #060110
Admitted in Central District,
California
1501 North Plano Road
Richardson, Texas 75083
(214) 234-2721

[Proof of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

STIPULATION AND ORDER RE BRIEFING SCHEDULE
AND HEARING DATE FOR COUNTERDEFENDANTS'
MOTION FOR SUMMARY JUDGMENT

Present Hearing Date:

December 11, 1989

New Hearing Date:

December 18, 1989

IT IS HEREBY STIPULATION by the parties, through their attorneys of record, subject to the approval of this Court, as follows:

1. Counterclaimants Professional Real Estate Investors, Inc. and Kenneth Irwin ("Irwin") shall have to and including November 8, 1989, to file their memorandum and supporting papers in opposition to counterdefendants' motion for summary judgment;

2. Irwin's opposition shall be served for receipt by Rosenfeld, Meyer & Susman on or before November 8, 1989;

3. Counterdefendants shall have to and including December 11, 1989, within which to file their reply papers, if any;

4. Counterdefendants' reply papers, if any, shall be served for receipt by Collier, Shannon, Rill & Scott on or before December 12, 1989; and

5. The hearing on counterdefendants' motion for summary judgment shall be continued from December 11, 1989, to December 18, 1989, at 10:00 a.m.

DATED: Oct. 26, 1989 COLLIER, SHANNON, RILL &
SCOTT

KELLY, HERLIHY & BANE

By Laura J. Barns
Laura J. Barns

Attorneys for Defendants and
Counterclaimants

DATED: Oct. 26, 1989 ROSENFELD, MEYER & SUSMAN

By James L. Seal
James L. Seal

Attorneys for Plaintiffs and
Counterdefendants

ORDER

IT IS SO ORDERED.

DATED: _____, 1989. _____
UNITED STATES DISTRICT
JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

COUNTERCLAIMANTS' MEMORANDUM IN OPPOSITION
TO COUNTERDEFENDANTS' MOTION FOR SUMMARY
JUDGMENT

Hearing Date: December 18, 1989

Hearing Time: 10:00 a.m.

[Table of Contents omitted in this printing]

Counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin ("Irwin"), respectfully submit this memorandum in opposition to Counterdefendants' Columbia Pictures Industries, Inc., *et al.* ("Counterdefendants"), motion for summary judgment on Irwin's counterclaims. Irwin has filed counterclaims detailing counterdefendants' violations of federal state antitrust law and California statutory and common law regulating commercial and trade practices.

The essence of counterdefendants' argument is that Irwin's antitrust counterclaims are based upon the conten-

tion that counterdefendants' filing of a copyright infringement action against, and refusing to license, Irwin constituted an antitrust conspiracy. Alleging their copyright claims were colorable, counterdefendants claim that their copyright infringement suit cannot be the basis for antitrust liability, as a matter of law.

Counterdefendant's argument not only mischaracterizes Irwin's claims and the governing law, but misstates the facts. Based on publicly available information, counterdefendants knew, and in fact admitted, that their claim against Irwin lacked merit. The very essence of the type of lawsuit that gives rise to antitrust liability is one filed, as counterclaimants did here, knowing that it lacks merit. Moreover, given counterdefendants' steadfast refusal to provide any meaningful discovery on Irwin's counterclaims, they cannot now claim some benefit from the fact that the record is not yet fully developed. Employing the correct legal analysis and assessing all of the factual bases for Irwin's counterclaims, Irwin's claims are valid and, in any event, substantial enough to warrant a full hearing.

BACKGROUND

On April 25, 1983 counterdefendants sued Irwin for copyright infringement. Counterdefendants alleged that the playing of videos by guests in the private lodging areas of Irwin's La Mancha Private Club and Villas constituted public performance because those guest rooms were public places. Irwin denied liability and counterclaimed, detailing counterdefendants' numerous violations of both federal and state law.

Irwin's First, Second, and Third Counterclaims address counterdefendants' intent to restrain and eliminate trade and commerce in the retail sale and rental of videos and, in particular, in the rental of videos for private viewing in hotel rooms, in violation of Sections 1 and 2 of the

Sherman Act. 15 U.S. §§ 1 and 2. Counterdefendants' anticompetitive activities include:

- Filing this copyright infringement action which they knew was groundless;
- Boycotting and concertedly refusing to grant licenses to Irwin; Misusing their copyrights by employing threatening notices on videos that state viewing of the video is restricted to "home use" and that non-home use will subject the user to civil and criminal penalties, in conjunction with the FBI symbol;
- Through their trade associations placing threatening advertisements in hotel trade journals warning hotels against "stealing" counterdefendants' copyrights by renting or using videos;
- Discriminating among licensees by charging different license fees to different distributors, possibly to punish distributors that sell to businesses that rent videos; and other improper acts.

Irwin's Fourth, Fifth, Sixth, and Seventh Counterclaims detail further violations of California statutory and common law regulating commercial and trade practices.

Both parties pursued discovery in this case. Irwin made Mr. Kenneth F. Irwin available for depositions and produced thousands of pages of documents. On January 7, 1985, Irwin served on each of the counterdefendants Requests for Production of Documents Nos. 1-40. Counterdefendants objected to all 40 document requests. Although they stated that they would provide Irwin an opportunity to inspect and copy documents, they refused to provide any discovery on the counterclaims. Irwin was forced to file a motion to compel production of the documents. Just before the hearing date, however, counterdefendants retained new counsel in the case. The Court requested that Irwin attempt to secure cooperation from counterclai-

nants' new counsel and did not rule on the motion to compel.

At the Court's request, the parties postponed further discovery on the counterclaims pending resolution of the infringement issue. On December 16, 1985, the Court ruled in Irwin's favor, holding that viewing videos in the privacy of a rental lodging is non-public and, thus, does not infringe any of counterdefendants' copyrights. Following the Court's ruling, Irwin again attempted to secure responses to their outstanding discovery requests. Yet, counterdefendants again refused to cooperate and Irwin was forced to file a second motion to compel on March 3, 1986.

On March 24, 1986, the Court, while emphasizing that discovery is required for resolution of the counterclaims, stayed discovery on the counterclaims pending resolution of the appeal of the copyright infringement claims. On January 17, 1989, the Ninth Circuit, in a unanimous decision, affirmed this Court's holding in Irwin's favor. *Columbia Pictures, Inc., et al. v. Professional Real Estate Investors, Inc., et al.*, 866 F.2d 278 (9th Cir. 1989). The mandate was lodged on March 20, 1989. At that time, the Court again noted that discovery was necessary to resolve the counterclaims.

In spite of the Court's explicit direction, counterdefendants have refused to provide the discovery necessary to resolve Irwin's counterclaims. In June 1989, counterdefendants agreed that they would produce certain documents, but only by August 30, 1989. No documents were produced. Finally, in September, counterdefendants delivered a limited number of license agreements with RCA for inspection by Irwin. In addition, they have produced less than a dozen warning labels from various videos. Counterdefendants have provided no substantive information in response to Irwin's remaining requests.

For example, counterdefendants have not produced any materials relating to: organizational charts (Request No.

11); communications, meetings, agreements, etc., between counterdefendants and others relating to video rentals (Request Nos. 20, 23, 26, 28, and 38); policies or practices regarding video rentals (Request Nos. 22, 24, 25, 32, and 33); materials relating to meetings at which video rental was discussed (Request Nos. 27 and 35); the involvement of the Motion Picture Association of America, Inc. ("MPAA") (Request No. 29); internal memoranda regarding video rentals (Request Nos. 24 and 34); and other issues. This information is essential, not only to identify the scope of counterdefendants' unlawful activities, but in order to assess their impact on the market for private video viewing, particularly in rental accommodations. Although Irwin has made substantial concessions on the scope of their requests, counterdefendants simply refuse to cooperate. In view of counterdefendants' continued refusal to grant Irwin any meaningful discovery, Irwin is forced to file a third motion to compel production of the same documents. Counterdefendants have now moved for summary judgment, while withholding the very information required to resolve their motion.

SUMMARY OF ARGUMENT

Defendants assert four basic claims in their motion for summary judgment. None of these claims can withstand scrutiny.

1. First, defendants argument that their suit was colorable and, therefore, cannot be considered a "sham" under the antitrust laws ignores the facts already developed in this case. A suit is a sham and, therefore, subject to antitrust liability if it is brought with knowledge that it lacks merit or without regard to its merit. *See, e.g., In re Burlington, Inc.*, 822 F.2d 518 (5th Cir. 1987). Counterdefendants brought their copyright suit against Irwin notwithstanding that they knew, and had previously admitted, that it lacked merit.

Specifically, counterdefendants participated in the development of the copyright law. In so doing, they sought to restrict the rental of videos and to include hotels within the definition of public places, so that the viewing of videos in hotel rooms would be considered public performance. Counterdefendants knew that they did not prevail on these issues. In fact, after the law was enacted, counterclaimants went back to Congress to again seek restrictions on rentals, which were again rejected by Congress. This alone reflects counterdefendants' awareness that the law did not support their claims for copyright infringement. Perhaps, more telling, in a lawsuit filed prior to the *Irwin* case, counterdefendants admitted that the very claims they raised against Irwin were not well founded and that the viewing of videos in a hotel room is not public performance under the copyright law.

Second, Irwin does not allege merely a single copyright infringement suit as the sole basis of its antitrust counterclaims. Rather, Irwin has claimed that defendants have engaged in a pattern of instituting or threatening to institute lawsuits in order to inhibit the development of a video rental market in the hotel and resort market. Irwin has identified at least one other such suit threatened by counterdefendants and has outstanding discovery requests to ascertain additional information on this issue. The very fact that counterdefendants have resisted this discovery now precludes their motion for summary judgment.

Third, defendants ignore the fact that Irwin has claimed that this lawsuit is but a part of a larger conspiracy. That conspiracy consists of a number of other activities, such as a group boycott, improper copyright notices, intimidation of the trade, and similar activities. The courts have recognized that a lawsuit is not protected from antitrust scrutiny under the *Noerr-Pennington* doctrine if it is a part of a broad antitrust conspiracy.

2. Counterdefendants next contend, in a classic bootstrap argument, that they could not have monopolized the video rental market because Irwin's actions were ultimately vindicated by this Court and the Ninth Circuit. Counterdefendants argue that their group boycott to deny Irwin licenses had no effect because Irwin did not really need a license after all. This argument ignores the injury to competition inflicted by counterdefendants for the past six years, when Irwin attempted to market their video system under the cloud of this lawsuit. It also ignores the fact that, until Irwin prevailed at the Ninth Circuit, counterdefendants steadfastly held to their position that licenses were required. They also steadfastly refused to provide them.

3. Counterdefendants next argue that Irwin has suffered no antitrust injury. This argument ignores the fact that counterdefendants' actions have precluded Irwin from developing and selling their video rental system to other hotels. Counterdefendants simply conclude, without any factual or legal support, that competition could not have been restrained and that Irwin could not have been injured. These matters are strongly contested. They present genuine issues of material fact which cannot be resolved without the benefit of discovery. Declaration of Patrick J. Coyne ("Coyne Decl."). Once discovery has been completed, the record will show that Irwin attempted to market their system and was rejected on each such attempt, being told that the risk of litigation by these counterdefendants was too great for the prospective customer to take. The record will show further that, having been able to inhibit the development of this market, counterclaimants may have destroyed any possibility of developing it in the future. Declaration of Kenneth F. Irwin ("Irwin Decl.").

4. Finally, defendants argue that Irwin's state law counterclaims must be dismissed if Irwin's federal antitrust claims are dismissed. Counterdefendants are simply wrong on the law. The state law claims are not pendent solely

to Irwin's federal antitrust counterclaims. Rather, they are also compulsory counterclaims relative to counterdefendants' original copyright infringement claims. As such, this Court's jurisdiction is not dependent on Irwin's federal counterclaims. To the same extent that counterdefendants' claims of copyright infringement were validly before the Court, Irwin's compulsory state law counterclaims properly remain so.

ARGUMENT

I.

COUNTERDEFENDANTS HAVE FAILED TO CARRY THEIR BURDEN FOR SUMMARY JUDGMENT

In order to secure summary judgment under Fed. R. Civ. P. 56, counterdefendants must demonstrate the absence of any genuine issue of material fact and that they are entitled to judgment as a matter of law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242 (1986). They can do neither. In resolving counterdefendants' motion, the Court must view all facts in a light most favorable to Irwin and draw all favorable inferences from such facts. *National Indus. v. Republic Nat'l Life Ins. Co.*, 677 F.2d 1258 (9th Cir. 1982); *Castenada v. Dura-Vent Corp.*, 648 F.2d 612 (9th Cir. 1981). Numerous genuine issues of material fact remain, primarily because counterdefendants have refused to cooperate in discovery. Moreover, counterdefendants are not entitled to a summary judgment as a matter of law.

Counterdefendants assert that they are entitled to summary judgment under a rule of reason analysis. The rule of reason, however, specifically requires "a balancing of the arrangement's positive and negative effects on competition," *Cascade Cabinet Co. v. Western Cabinet & Millwork*, 710 F.2d 1366, 1373 (9th Cir. 1983). Under the rule of reason, "the factfinder weights all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on

competition." *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 35, 49 (1977). The importance of having a sufficient factual basis to apply a rule of reason analysis has been recognized by the Supreme Court:

The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine the question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts.

Chicago Board of Trade v. United States, 246 U.S. 231, 238 (1918). Hence, summary judgment is rarely appropriate in an antitrust case. *Poller v. Columbia Broadcasting System*, 368 U.S. 464 (1962).

On their motion for summary judgment, counterdefendants are required to come forward with affirmative and uncontroverted evidence that they are entitled to relief. It is not enough to argue, as do counterdefendants, that Irwin has not adduced sufficient proof to prevail. That is the purpose of discovery; discovery which counterdefendants have now resisted for almost five years. Counterdefendants' refusal to cooperate in that discovery signifies that there is more to Irwin's claims than counterdefendants admit. Rather than simply providing the information which they contend will exculpate them, counterdefendants have continued to evade the issues. Although there are already sufficient facts of record to preclude summary judgment, they continue to resist the only reasonable av-

enue of resolving the counterclaims—full and open discovery.

II.

COUNTERDEFENDANTS' CONDUCT IS NOT PROTECTED BY THE NOERR-PENNINGTON DOCTRINE

Counterdefendants claim that the initiation of the underlying lawsuit against Irwin is immune from antitrust scrutiny because it is protected First Amendment speech under the *Noerr-Pennington* doctrine. Counterdefendants' Memorandum at 6 ("Counter. Mem."). They argue that, since the underlying suit was colorable, Irwin cannot establish that the "sham exception" applies—as a matter of law. Counter. Mem. at 10-14.¹

Under the *Noerr-Pennington* doctrine, genuine and legitimate attempts to influence passage or enforcement of laws are immune from antitrust scrutiny. *United Mine Workers v. Pennington*, 381 U.S. 657, 669-71 (1965); *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 137-139 (1961). In *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), the Court extended *Noerr-Pennington* immunity to good faith attempts to secure legitimate goals through use of the courts. The immunity from antitrust scrutiny conferred by *Noerr-Pennington*, however, is not absolute. That immunity does not extend to attempts to influence the government or the courts which are a "mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor."

¹ Counterdefendants rely heavily on decisions construing Rule 11 and take pains to avoid the substantial body of Ninth Circuit jurisprudence on the sham exception. Although violation of Rule 11 may well reflect that a suit is baseless, Rule 11 is irrelevant to counterdefendants' motion, which must be resolved under the antitrust decisions of this circuit.

California Motor Transport, 404 U.S. at 511 (quoting *Noerr*, 365 U.S. at 144).

Counterdefendants do not dispute the fact that a frivolous suit is a sham and is not protected from antitrust scrutiny under the *Noerr-Pennington* doctrine. Rather, counterdefendants claim that "[w]here a complaint asserts a non-frivolous claim, the complaint, even if ultimately unsuccessful, is not a 'sham' as a matter of law." Counter. Mem. at 13. If, however, the party did not in fact have an honest belief that the claim was meritorious, the sham exception applies. *In re Burlington Northern, Inc.*, 822 F.2d 518, 529 (5th Cir. 1987). Consequently, the issue on counterclaimant's motion properly is whether or not counterdefendants actually had, and not whether they merely could have had, a good faith belief that their infringement claims were valid. Even a single lawsuit brought with knowledge that it lacks merit is sufficient to give rise to antitrust liability. *Rickards v. Canine Eye Registration Foundation*, 783 F.2d 1329, 1332 (9th Cir.); cert. denied, 479 U.S. 851 (1986); *Energy conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 388 (9th Cir. 1986); *Clipper Express v. Rocky Mountain Motor Tariff Bureau*, 690 F.2d 1240, 1255 (9th Cir. 1982), cert. denied, 459 U.S. 1227 (1983).

Counterdefendants rely upon *Omni Resource Corp. v. Conoco, Inc.*, 739 F.2d 1412 (9th Cir. 1984), and *Hydro Tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171 (10th Cir. 1982), for the proposition that a non-frivolous claim cannot be a sham as a matter of law and, therefore, intent is irrelevant. Neither case so holds. Both cases require that the litigant have proceeded in good faith and have a "legitimate expectation" of prevailing. *Omni Resource*, 739 F.2d at 1413. No such legitimate expectation can exist where, as here, the plaintiff knows its claims are false. Claims filed by a party knowing they are meritless are far more onerous than those simply lacking probable cause. *Hydro-Tech*, 673 F.2d at 1177. They serve to defraud the

court and abuse the judicial process. The facts of record amply demonstrate that Counterdefendants did not have the required good faith.

Counterdefendants contend that the underlying suit was not baseless and, thus, not a sham because: (1) the copyright issue was one of first impression, Findings of Fact, Conclusions of Law, and Order at 6 (January 5, 1986); and (2) after granting the motion for summary judgment in Irwin's favor in the underlying action, the District Court noted "I think the issue on which I granted summary judgment is a very close one." Hearing Transcript at 3. Counterdefendants then argue that their intent in initiating this action is irrelevant.

Yet, the evidence already of record establishes that counterdefendants knew their copyright infringement action was without merit. Such conduct violates the antitrust laws. *Rickards v. Canine Eye Registration Foundation*, 783 F.2d at 1334; see also *Winterland Concessions Co. v. Trela*, 735 F.2d 257, 263 (7th Cir. 1984); and *Hydro-Tech Corp. v. Sundstrand Corp.*, 673 F.2d at 1175. *Noerr-Pennington* does not protect claims where the results intended are "not by the result of the litigation, but by the simple fact of the institution of the litigation," which the law proscribes. *Winterland Concessions*, 735 F.2d at 264 (emphasis in original).

"Determining whether the petitioning conduct is a sham often involves questions of motive or subjective intent . . . whether the litigant wished to obtain its anticompetitive end through obtaining court-rendered relief or simply through the filing and maintenance of the lawsuit." *G. Heileman Brewing Co. v. Anheuser-Busch, Inc.*, 676 F. Supp. 1436, 1476 (E.D. Wis. 1987), *aff'd*, 873 F.2d 985 (9th Cir. 1989) See also *Westmac, Inc. v. Smith*, 797 F.2d 313, 317 (6th Cir. 1986) (noting that "intent is relevant when a party allegedly filed a suit without concern for obtaining a favorable judgment, but only to directly harm

a competitor"). That is precisely what counterdefendants intended in this case—to bring a suit they had previously admitted was baseless in order to pressure Irwin to abandon its rental program rather than fight, just as counterdefendants had done to other hotels prior to bringing this case. *In re Burlington Northern, Inc.*, 822 F.2d at 529. See *G. Heileman Brewing Co.*, 676 F.Supp. at 1476. See also *Grip-Pak, Inc. v. Illinois Tool Works, Inc.* 694 F.2d 466, 472 (7th Cir. 1982), *cert. denied*, 461 U.S. 958 (1983) ("litigation could be used for improper purposes even where there is probable cause for the litigation; and if the improper purpose is to use litigation as a tool for suppressing competition . . . it becomes a matter of antitrust concern").

In bringing this action, counterdefendants claimed that performances of videos at La Mancha were public, only because the guest lodgings at La Mancha are allegedly "public" places. Counterdefendants, however, knew that the lodging accommodations at Irwin's facility are private, not public, places. These same counterdefendants, through the same counsel, admitted in *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F. Supp. 315 (M.D. Pa. 1985), that hotel rooms, dormitory rooms, and apartments "are not open to the public . . ." *Plaintiffs' Brief in Opposition to Defendants' Cross-Motion for Summary Judgment and in Reply-Support of Plaintiffs' Motion for Summary Judgment in Columbia Pictures Indus., Inc. v. Aveco, Inc.*, at 7. In *Aveco*, the infringement defendants introduced the hypothetical of a salesman who takes a video to a hotel room and plays it there, to illustrate that their facility was not "public." Although counterdefendants argued that the *Aveco* facility was not a hotel, they expressly admitted in *Aveco* that "it is clear that [hotel rooms] are not open to the public." *Id.*

Since at least the earliest days of Congressional consideration of the present Copyright Act, counterdefendants have attempted to expand their performance rights in vi-

deos in a manner that would cover all rentals, including rentals for private viewing in hotel rooms. Counterdefendants urged the Register of Copyrights, as early as 1961, that their performance rights in motion pictures should be extended to what Congress determined to be private performances. The Register directly addressed the rental of videos for private viewing in her 1961 report, and rejected counterdefendants' arguments. Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, Copyright Law Revision 29, 87th Cong., 1st Sess. (Comm. Print 1961).

In enacting the Copyright Act, Congress recognized that hotel accommodations are private, not public, places. Congress referred throughout the legislative history to "private hotel rooms" and distinguished such private accommodations from the common areas of a hotel. Supplemental Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, Copyright Law Revision, Part 6 at 43-44, 89th Cong., 1st Sess. (Comm. Print 1965), *accord*, H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79, *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659 at 91-92; 17 U.S.C. § 111(a)(1). See also Appellee's Brief in *Columbia Pictures Industries, Inc., et al. v. Professional Real Estate Investors, Inc., et al.* ("Appellee's Brief") at 17-19.

Counterdefendants knew that Congress chose not to prohibit or limit the rental of video movies for private viewing. Undeterred, they went back to Congress in the early 1980s, attempting once again to secure the right to control rentals for private viewing of videos, including private viewing in hotel rooms. S.31, S.175, 98th Cong., 1st Sess. (1983); *see also* Appellee's Brief at 31. Once again, Congress refused to adopt counterdefendants' construction. The mere fact that they sought this legislative change further reflects counterdefendants' recognition that the Copyright Act does not prohibit rentals of videos for private viewing.

Knowing that hotel rooms are private and not public, counterdefendants nonetheless maintained this action. They did not have an honest, let alone reasonable, belief that their copyright infringement action—premised on the argument that a hotel room is a public place—was meritorious. Counterdefendants knew that the hotel is a private place and that their claims to the contrary in this case were baseless and a sham. The courts have repeatedly recognized that initiating a lawsuit in such circumstances may result in antitrust liability. The *Noerr-Pennington* doctrine does not protect unethical conduct and misrepresentations. *California Motor Transport v. Trucking*, 404 U.S. 609 (1972); *St. Josephs Hospital v. Corp. of America*, 795 F.2d 948, 955, *reh'g en banc denied*, 801 F.2d 404 (11th Cir. 1986). "The First Amendment has not been interpreted to preclude liability for false statement." *Clipper Express v. Rocky Mountain Motor Tariff Bureau*, 690 F.2d 1240, 1261 (1982). See also *Allied Tube Conduit Corp. v. Indian Head, Inc.*, 108 S. Ct. 1931 (1988). At the very least, substantial genuine issues of material fact remain regarding the state of counterdefendants' knowledge. Coyne Decl.

Counterdefendants' allegation that their copyright infringement claims in this action are the only basis for Irwin's counterclaims is simply inaccurate.² Irwin has alleged that counterdefendants have engaged in an illegal pattern of activity. This pattern includes filing or threatening to file other lawsuits. Irwin is already aware of at least one other such threatened lawsuit. Irwin has sought discovery to ascertain other lawsuits counterdefendants have filed or threatened. This pattern of sham litigation

² Counterdefendants' reliance on the *Omni Resource* decision for the proposition that a single groundless suit is insufficient to give rise to liability is misplaced. Irwin has alleged that counterdefendants' pattern of baseless suits is a part of a broader unlawful conspiracy by counterdefendants.

further supports Irwin's counterclaims. Hence, Irwin's counterclaims are based not merely on the fact that counterdefendants brought in this action infringement claims they knew were false, but that they brought this suit and similar suits knowing that they were baseless. *Otter Tail Power Co. v. U.S.*, 410 U.S. 366 (1973).

Moreover, counterdefendants' pattern of unlawful conduct is not limited to the filing of this and other lawsuits. Counterdefendants in their memorandum address only two of their anticompetitive activities—the filing of this action knowing it was groundless and their concerted refusal to license. Yet, Irwin has identified a number of other acts of counterdefendants individually, and in concert with others, by which they have attempted to restrict the development of a rental market for videos, and, in particular, for viewing in private rental accommodations. Counterdefendants undertook these activities in order to maintain their monopoly over the distribution of motion pictures to hotels and resorts in return for a substantial royalty. These programs generally involve the transmission of various movies to each hotel room at preset times through a cable system.

In addition to filing this infringement suit knowing performances at La Mancha are private and refusing to license video viewing in hotels, Irwin understands that individually and in concert with others: (1) counterdefendants restrict their licensed distributors of videotapes and discs from selling to businesses that intend to rent the videos for any use outside the home; (2) counterdefendants brought this action, and brought or threatened to bring similar actions against other hotels and resorts renting videos, to thwart the development of the video alternative; (3) counterdefendants misused their copyrights by employing threatening notices on videos that state viewing of the video is restricted to "home use" and that non-home use will subject the user to civil and criminal penalties, in conjunction with the FBI symbol; (4) counterdefendants,

through their trade associations, used other threatening actions such as placing advertisements in hotel trade journals warning hotels against "stealing" counterdefendants' copyrights by renting or using videos; and (5) counterdefendants may also discriminate among their licensees by charging different license fees to different distributors, possibly to punish distributors that sell to businesses that rent videos for private use outside the home.

Having neglected to even address these further anti-competitive activities, counterdefendants have not satisfied their burden of production. *Celotex Corp. v. Catrett*, 477 U.S. 332 (1986). Moreover, even had they adduced evidence on these issues, summary judgment is improper because genuine issues of material fact exist as to the magnitude of these anticompetitive activities and their effect on competition.

Although a number of these claims are not yet fully developed, that circumstance is the direct result of counterdefendants' steadfast refusal for the past five years to provide any meaningful discovery. Having refused to provide this discovery, as to information uniquely within their possession, counterdefendants cannot claim a benefit on this motion from their own recalcitrance. To the contrary, the fact that counterdefendants have to steadfastly refused to provide the requisite discovery is itself indicative that their actions violate the antitrust laws. At a minimum, the fact that the copyright infringement litigation against Irwin and similar cases and threats against others were part of a broader conspiracy is itself sufficient to take the litigation out of the realm of *Noerr-Pennington* protection.

III.

COUNTERDEFENDANTS ARE NOT ENTITLED TO SUMMARY JUDGMENT AS A MATTER OF LAW ON THEIR CONCERTED REFUSAL TO GRANT IRWIN LICENSES FOR THE RENTAL OF VIDEODISCS

Counterdefendants argue further that their concerted refusal to grant licenses to Irwin to rent videos cannot violate the antitrust laws as a matter of law. In view of the rulings by both this Court and the Ninth Circuit that Irwin has the right to rent videodiscs to guests without a license, counterdefendants argue that their concerted refusal to deal cannot have restrained trade or injured Irwin. Thus, they contend, Irwin cannot establish an essential element of a Section 1 or Section 2 claim—antitrust injury. Counterdefendants' argument is legally and factually without merit.

Counterdefendants' argument flies in the teeth of their contention that the infringement suit was not a sham. On one hand, counterdefendants argue that the copyright infringement claims were brought in good faith. Yet, they concede that they had no right to exclude anyone from performing videos in hotel rooms. They now apparently contend that everyone should have known they would not prevail on their infringement claims and, therefore, could not reasonably have believed them. Counterdefendants cannot have it both ways.

If, as counterdefendants assert, the copyright infringement claim was arguably "colorable" and brought with "probable cause," the effect of their concerted refusal to deal cannot be ignored. If Irwin's potential customers for their in-room viewing system feared becoming embroiled in litigation absent a license, and refused to purchase Irwin's system because of that concern, counterdefendants' concerted refusal to deal has injured Irwin and restrained competition. Irwin Decl. The extent to which counterdefendants' conduct has inhibited the development of a mar-

ket for in-room video viewing systems can be resolved only through discovery.

Counterdefendants argue further that their concerted refusal to license Irwin to rent videodiscs to their hotel guests is not a *per se* violation of Section 1 of the Sherman Act. Counter. Mem. at 16-18. Whether or not their concerted refusal to deal is a *per se* violation is irrelevant.³ Counterdefendants, not Irwin, have moved for summary judgment and they must establish affirmatively that there are no genuine issues of material fact and that they are entitled to summary judgment as a matter of law.

IV.

IRWIN HAS SUFFERED ANTITRUST INJURY

Genuine issues of material fact remain as to whether counterdefendants' concerted refusal to deal has restrained competition in the videodisc market. Irwin was a licensed RCA dealer and intended to market in-room video systems to other hotels. Irwin Decl. at ¶ 2-3. Hotel operators, however, declined to purchase Irwin's system, absent a license. Irwin was, therefore, precluded from developing a viable video rental system as a direct result of counterdefendants' unlawful conduct. Irwin Decl. at ¶ 4.

³ Horizontal agreements among suppliers refusing to deal with particular customers or classes of customers, as have counterdefendants, are typically referred to as concerted refusals to deal or "group boycotts." Traditionally, concerted refusals to deal are *per se* unlawful. In *Klors, Inc. v. Broadway Hale Stores, Inc.*, 359 U.S. 207 (1959); *Charley's Taxi Radio Dispatch v. Sida of Hawaii*, 810 F.2d 869, 876 (9th Cir. 1987); *Regents of University of California v. ABC, Inc.*, 747 F.2d 511, 516 (9th Cir. 1984). *Northwest Wholesale Stationers, Inc. v. Pacific Stationary & Printing Co.*, 472 U.S. 284 (1985), cited by counterdefendants, does not remove boycotts from the *per se* category. The court in that case found a cooperative buying arrangement, which is vastly different from counterdefendants' classic boycott of Irwin, was not a group boycott.

Numerous issues of material fact remain as to the extent of Irwin's losses and the effect on competition in general of counterdefendants' concerted refusal to license and other activities. These include: (1) the extent to which Irwin was restrained from marketing their system; (2) the potential market for Irwin's system, absent counterdefendants' concerted refusal to deal; (3) the extent to which counterdefendants' actions induced hotel operators to decline to purchase Irwin's system; (4) the extent to which others would have developed further lawful systems to compete with Spectradyne; etc. If more hotels had acquired and implemented in-room video viewing systems, competition in the video industry would have been enhanced. Moreover, Irwin's video system made in-room viewing technology available to smaller hotels, which may not have been able to justify the cost of a Spectradyne video system. Irwin Decl. at ¶ 4. These fact issues must be resolved in order to determine whether competition has been restrained and whether counterdefendants' concerted refusal to deal violates Section 1 of the Sherman Act. They cannot be resolved without the benefit of discovery.

V.

SUMMARY JUDGMENT IS NOT PROPER BECAUSE THE STATE LAW COUNTERCLAIMS CANNOT BE DISMISSED

Without even addressing the effect of their unlawful activities, counterdefendants contend that Irwin's remaining state law counterclaims must be dismissed because, if the federal antitrust claims are dismissed, the Court will no longer have subject matter jurisdiction over the state law claims. The federal antitrust claims, however, cannot be dismissed on this motion. Numerous genuine issues of material fact remain and Irwin must be afforded meaningful discovery. Even were they dismissed, however, Irwin's state law claims arose out of the same transaction as counterdefendant's infringement claims and must be

tried in this action. Fed. R. Civ. P. 13.3 Rules 13(a) and 13(b) of the Federal Rules of Civil Procedure deal with two basic categories of counterclaims—compulsory and permissive. A counterclaim that arises out of the same transaction or occurrence that is the subject matter of the opposing party's claim is compulsory. It must be raised as a defense and it must be resolved in the same action. A litigant is required to assert its compulsory counterclaims to avoid wasteful multiplicity of litigation. Since both counterclaimants' infringement claims and Irwin's counterclaims arose out of the same transaction, it is in the interest of judicial economy to have them adjudicated by the same court. *Albright v. Gates*, 362 F.2d 928 (9th Cir. 1966).

A Rule 13(a) compulsory counterclaim falls within the ancillary jurisdiction of the court and does not require an independent basis of subject matter jurisdiction. *Hardy v. Nat'l Kinney of California, Inc.*, 565 F. Supp. 1027 (N.D. Cal. 1985); *Santa Clara v. Kleppe*, 428 F. Supp. 315 (N.D. Cal. 1976), *aff'd*, 572 F.2d 660 (9th Cir.), *cert. denied*, 439 U.S. 859 (1978). Once a federal court has jurisdiction over plaintiff's claim, it also has jurisdiction over any counterclaim that arises from the same transaction or occurrence, even though it might not have had jurisdiction had those claims been brought in a separate action. Once ancillary jurisdiction attaches, a court is not ousted of its power to hear the counterclaim by subsequent dismissal of the plaintiffs' claims, even by a decision on the merits. *See, e.g., Hamilton v. Firestone Tire & Rubber Co.*, 679 F.2d 143 (9th Cir. 1982). Hence, regardless how the federal claims are resolved, the Court retains jurisdiction over Irwin's state law claims.

CONCLUSION

For the foregoing reasons, Irwin respectfully submits that counterdefendants' motion for summary judgment

should be denied and discovery on the counterclaims should proceed promptly.

Respectfully submitted,

COLLIER, SHANNON, & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

By: Patrick J. Coyne

KELLY, HERLIHY & BANE
LAURA J. BARNES

Counsel for Counterclaimants,
Professional Real Estate
Investors, Inc., and Kenneth F.
Irwin

Dated: November 8, 1989

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV-83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

DECLARATION OF KENNETH F. IRWIN

KENNETH F. IRWIN declares and states as follows:

1. I am a director, shareholder, and officer of Professional Real Estate Investors, Inc. In addition, I am manager of La Mancha Private Club and Villas ("La Mancha") in Palm Springs, California.

2. We installed approximately \$20,000 in video disc player equipment at La Mancha. In addition, we have invested approximately \$15,000 in video discs. The video disc player equipment installed at La Mancha was purchased from RCA Corporation. La Mancha was, until 1988, an RCA representative with respect to the sale of video disc player equipment.

3. I had attempted to develop a market for the sale and installation of video disc player equipment to other hotels for private, in-room, movie viewing. As an RCA representative, I had contacted other hotels in an attempt to install video disc player equipment using the in-room video technology employed at our La Mancha facility. I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterde-

fendant movie studios. I believe further that larger chains, in particular, were reluctant to make a substantial investment in video technology absent a license from the movie studios.

4. Counterdefendants currently license Spectradyme to render performances of videos in hotel rooms. Based upon my experience at La Mancha, in-room video players offers the potential of a less costly and more profitable in-room performance alternative to a Spectradyme-type system. Hence, stand alone in-room video players would likely expand the market for in-room video performances relative to that available through a Spectradyme-tape system alone.

5. After the institution of this action, I attempted for more than a year, to obtain licenses from Counterdefendants to use and install in-room video systems in guest lodgings. None of the Counterdefendants would grant a license on reasonable terms.

6. We have been precluded from expanding our in-room video rental program to other hotels as a direct result of Counterdefendants' intimidation, threats of litigation, and refusal to license.

7. Technology in the video industry has continued to evolve. At the time we began our in-room video program at La Mancha, we were well positioned with respect to the market for in-room private video performances in lodgings. During the intervening years, developments in hotel industry have tended to foreclose some of the opportunities that were available with respect to the development of a market for stand alone, in-room video viewing. The trend in the hotel industry is currently to provide cable systems. Some hotel are reluctant to provide stand alone video viewing systems in addition to a cable system. Some of the opportunities that were available to use for the development of an in-room video market several years ago, therefore, have now been lost as a result of Counterdefendants' activities and cannot be recovered.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: _____
KENNETH F. IRWIN

**IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA**

Civil Action No. CV-83 2594 WPG

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Counterclaimant,

v.

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Counterdefendants

**DECLARATION OF PATRICK J. COYNE PURSUANT TO
FED. R. CIV. P. 56(f)**

PATRICK J. COYNE states as follows:

1. I am an attorney and am currently employed by Collier, Shannon & Scott, in Washington, D.C. I am counsel of record for counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively referred to as "Irwin").

2. Counterdefendants Columbia Pictures Industries, Inc., *et al.* (collectively referred to as "Counterdefendants"), in their motion for summary judgment, raise a number of factual issues. Among these, Counterdefendants assert that neither Irwin nor others in the video rental market could have been injured as a result of Counterdefendants' concerted refusal to license private video performances in hotels and other rental lodgings. The issue whether anyone has been injured as a result of Counterdefendants' conduct that is a fact question. Irwin has sought discovery from counterdefendants regarding the market for rental of videos for private performance in hotels. Counterdefendants,

however, have failed to produce any documents relating to that issue. Discovery likely will also be required from third parties on that issue. Consequently, Irwin is currently unable to present facts essential to justify their opposition to Counterdefendants' motion for summary judgment.

3. In addition, Counterdefendants allege that their intent in bringing and prosecuting this action is irrelevant. Although Counterdefendants' anticompetitive intent in bringing this action may be irrelevant, Irwin's counterclaims raise numerous related issues such as whether Counterdefendants' infringement claims against Irwin were a "sham". These fact issues include whether or not counterdefendants' conduct is part of a pattern or practice of anticompetitive conduct and whether or not Counterdefendants knew those claims were baseless at the time they brought them. Irwin has sought discovery on these issues. Counterdefendants, however, have refused to produce any information relating to these questions. Although the evidence of record establishes that Counterdefendants knew their claim was baseless when they brought it, Irwin is unable without the benefit of further discovery to present additional facts critical to their opposition to Counterdefendants' motion for summary judgment.

4. Counterdefendants have sought to restrict performances of their copyrighted works to home use only. These restrictions constitute misuse of Counterdefendants' copyrights, giving rise to liability under the federal and state antitrust laws and state unfair competition laws. Irwin has sought discovery concerning this misuse, yet, Counterdefendants have refused to provide any such information. Consequently, Irwin cannot present facts sufficient to justify their opposition to Counterdefendants' motion for summary judgment.

5. Counterdefendants have misused their copyrights by attempting to acquire and maintain a monopoly over the rental market for videos, particularly with respect to the

rental of videos for performance in lodging accommodations. Irwin has sought discovery into the activities undertaken by Counterdefendants to acquire or maintain that market power, and into Counterdefendants' knowledge and intent. Counterdefendants, however, have steadfastly refused to provide Irwin with discovery on these issues. Accordingly, because of Counterdefendants' refusal to cooperate in discovery, Irwin is unable to present facts essential to justify their opposition to Counterdefendants' motion for summary judgment.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: November 7, 1989 /s/ Patrick J. Coyne
PATRICK J. COYNE

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

COUNTERCLAIMANTS' STATEMENT OF GENUINE
ISSUES OF MATERIAL FACT

Hearing Date: December 18, 1989

Hearing Time: 10:00 a.m.

Pursuant to Local Rule 7.14.2 of the United States District Court for the Central District of California, Counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively referred to as "Irwin"), set forth the following statement of material facts as to which there exist a genuine issue. In view of the existence of the genuine issues of material fact identified in this memorandum, the Motion for Summary Judgment filed by Counterdefendants Columbia Pictures Industries, Inc., *et al.* ("counterdefendants"), in this action must be denied.

STATEMENT OF GENUINE ISSUES

The following issues and the reasons why they preclude counterdefendants' Motion for Summary Judgment are

more fully discussed in Irwin's Memorandum in Opposition to Counterdefendants' Motion for Summary Judgment.

Whether Noerr-Pennington Applies Raises Genuine Issues of Material Fact

1. Irwin contests counterdefendants' assertion that Irwin is basing its counterclaims upon the filing of a single lawsuit. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 3). Irwin has alleged that counterdefendants have engaged in an illegal pattern of activity, including filing and threatening to file other lawsuits. Irwin is already aware of at least one other threatened lawsuit and seeks discovery to ascertain other lawsuits counterdefendants have filed or threatened.

2. Irwin contests counterdefendants' allegation that the determination of a "baseless" claim is solely a question of law and that counterdefendants intent and/or knowledge are irrelevant. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 3). Whether a claim is "baseless," and ultimately a sham, requires an examination of the party's knowledge of the merits of its claim (or lack thereof), which is an issue of fact.

3. Irwin contests counterdefendants' assertion that the underlying claim was not "baseless." (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 4). Evidence presently available indicates that counterdefendants knew at the inception of the copyright infringement claim that it was without merit. For example, counterdefendants knew that the lodging facilities at Irwin's facility are non-public places because they had admitted in earlier litigation that hotel rooms are not open to the public and that performance of a video in a hotel room would not constitute public performance. Further, counterdefendants knew that, in enacting the Copyright Act, Congress expressly recognized that hotel accommodations are private, not public, places. Congress has repeatedly rejected counterdefendants' attempts to expand

their performance rights in videos in a manner that would cover all rentals, including rentals for private viewing in hotel rooms. Thus, the issue of counterdefendants' knowledge that their claims were "baseless," is squarely in issue.

4. Even if the Court determines that the copyright infringement action was not "baseless" in that it presented a non-frivolous, colorable claim, counterdefendants are not entitled to summary judgment as a matter of law. An examination of the party's subjective intent and knowledge in instituting the lawsuit—whether the litigant wished to obtain its anticompetitive end through court-ordered relief or simply through the filing of the lawsuit—is imperative under the *Noerr-Pennington* doctrine. A litigant must have both an honest and reasonable belief that a claim is meritorious. Evidence presently available indicates that counterdefendants knew their copyright infringement claim was without merit. See ¶ 3, *supra*. At the very least, genuine issues of material fact exist as to counterdefendants' true intent and knowledge when instituting the copyright infringement action. Discovery, which counterdefendants have totally denied Irwin, is required.

Plaintiffs Are Not Entitled to Summary Judgment for Their Concerted Refusal to License Irwin

5. Irwin contests counterdefendants' assertion that their concerted refusal to deal cannot be judged under a *per se* analysis. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 5). Traditionally, concerted refusals to deal (group boycotts) have been held *per se* unlawful.

6. Nonetheless, even under the rule of reason, the factfinder must weigh all the circumstances of the case in determining whether a restrictive practice imposes an unreasonable restraint on competition. Summary judgment is rarely appropriate in an antitrust case especially where, as here, a party has been denied access to any meaningful discovery in order to develop the necessary facts. Irwin,

therefore, contests counterdefendants' allegation that summary judgment is proper under the rule of reason.

7. Irwin also contests counterdefendants' assertion that their concerted refusal to license Irwin could not have restrained trade because Irwin ultimately prevailed on counterdefendants' infringement claims. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 10). Counterdefendants contend that the market was free to rent videodiscs to hotel guests for viewing in their hotel rooms without licenses. This argument assumes that Irwin and other hotel operators knew that licenses were not required. If so, there could have been no reasonable basis for the copyright infringement action and it was a sham. The belief of persons in the industry as to the merits of counterdefendants' action, and whether they simply wishes to avoid the costs of litigation apart from any perceived risk of liability, are questions of fact.

8. Genuine issues of material fact also remain as to whether counterdefendants' concerted refusal to deal has restrained competition. Injury is an issue of fact and requires resolution of, at least, the following questions: (1) the extent to which Irwin was restrained from marketing their system because of the concerted refusal to deal; (2) the potential market for Irwin's system; (3) the extent to which counterdefendants' actions induced hotel operators to decline to purchase Irwin's system; (4) the extent to which others would have developed like systems to compete with counterdefendants' only licensed operator, Spectradyne; etc. If more hotels had acquired and implemented in-room video viewing systems, competition in the video industry would have been enhanced substantially. Discovery is necessary to develop these key factual issues and, in view of counterdefendants refusal to provide that discovery, summary judgment is improper.

9. Irwin similarly contests counterdefendants' assertion that its concerted refusal to license Irwin could not have

violated Section 2 of the Sherman Act. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 13). What effects have resulted from counterdefendants' concerted refusal to deal is a factual issue which requires full and meaningful discovery, which Irwin has not yet been allowed. See ¶ 8, *supra*.

10. Irwin contests counterdefendants' assertion that Irwin has not suffered antitrust injury. Counterdefendants impermissibly assume that Irwin, and all persons to whom Irwin attempted to market their in-room viewing system, knew that the underlying copyright infringement action was a sham. Injury is a question of fact. Material issues of fact remain as to: (1) the extent to which Irwin was restrained from marketing their system because of the concerted refusal to deal; and (2) the potential market for Irwin's system, absent counterdefendants' concerted refusal to deal. Meaningful discovery is required to determine the extent of the antitrust injury to Irwin.

Issues Relating to Other Anticompetitive Activities

11. Numerous genuine issues of material fact exist as to the other anticompetitive activities in which counterdefendants have engaged. In addition to this and other baseless infringement suits and counterdefendants' refusal to license, Irwin understands that individually, and in concert with others: (1) counterdefendants restrict distributors of videotapes from selling to businesses that intend to rent; (2) counterdefendants have threatened other similar lawsuits to thwart the development of the video alternate; (3) counterdefendants misused their copyrights by employing threatening notices on videos; (4) counterdefendants, through their trade associations, used other threatening actions such as placing advertisements in hotel trade journals warning hotels against "stealing"; and (5) counterdefendants may also discriminate among their licensees, perhaps to punish distributors that sell to businesses that rent videos for private viewing. These activities have likely

injured competition in the video industry. Meaningful discovery is required.

The State Law Claims Should Not be Dismissed

12. Irwin contests counterdefendants' allegation that the state law claims must be dismissed if the federal antitrust claims are dismissed. (Counterdefendants' Statement of Uncontroverted Fact and Conclusions of Law at ¶ 17). Irwin's state law counterclaims are compulsory because they arose out of the same transaction as counterdefendants' infringement claim. Thus, even if the federal antitrust claims are dismissed, and they should not be, the state law claims must be tried in this action. Fed. R. Civ. P. 13.

Respectfully submitted,

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Dated: November 13, 1989

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

—
No. 83-2594 WPG
—

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

REPLY MEMORANDUM OF POINTS AND AUTHORITIES
SUBMITTED BY PLAINTIFFS IN SUPPORT OF THEIR
MOTION FOR SUMMARY JUDGMENT AS TO FIRST,
SECOND AND THIRD COUNTERCLAIMS AND FOR
DISMISSAL OF REMAINING PENDENT CLAIMS

December 18, 1989

10:00 a.m.

[Table of Contents omitted in this printing]

I.

INTRODUCTION

Counterclaimants Professional Real Estate Investors, Inc. *et al.* (hereinafter "La Mancha") oppose the plaintiffs' motion for summary judgment on the following general grounds: (i) the underlying copyright infringement action here was a "sham" not entitled to immunity under the *Noerr-Pennington* doctrine because plaintiffs allegedly

prosecuted the action knowing it to be without merit and because plaintiffs allegedly brought the underlying copyright infringement action as part of a pattern of other baseless lawsuits; (ii) La Mancha has allegedly suffered "antitrust injury" because of its inability to sell video hardware to other hotels which refused to institute in-room video systems purportedly because of alleged threats of litigation by plaintiffs; and (iii) plaintiffs have purportedly denied La Mancha discovery to which it is entitled, thus warranting denial of the motion for summary judgment.

As will hereinafter be demonstrated, none of these contentions has merit. Plaintiffs' prosecution of the underlying copyright infringement action here was constitutionally protected under the *Noerr-Pennington* doctrine, and La Mancha raises no material factual issue in support of its contention that the action was a "sham" [see Part II, *infra*]. Moreover, La Mancha has utterly failed to rebut plaintiffs' showing that plaintiffs' alleged withholding of video license rights—which the Ninth Circuit has ruled La Mancha has had all along—neither had anticompetitive effects nor caused La Mancha to suffer antitrust injury [see Part III, *infra*]. Finally, there is no basis whatever to support La Mancha's contention that the court should deny the plaintiff's motion for summary judgment because of any refusal by plaintiffs to accord La Mancha discovery to which it is entitled [see Part IV, *infra*].

The court should grant plaintiffs' motion for summary judgment directed at La Mancha's antitrust counterclaims, and having done so, the court should dismiss La Mancha's pendent claims under state law as well [see Part V, *infra*].

II.

AS A MATTER OF LAW, THE COMPLAINT IN THE UNDERLYING ACTION WAS NOT "BASELESS," AND FOR THAT REASON, LA MANCHA CANNOT INVOKE THE "SHAM" EXCEPTION TO THE NOERR-PENNINGTON DOCTRINE.

La Mancha's counterclaim seeks damages under the antitrust laws by reason of plaintiffs' unsuccessful prosecution of their copyright infringement claim herein [Counterclaim ¶35; ¶39 and ¶45]. Plaintiffs have moved for summary judgment on the ground that prosecution of the underlying lawsuit here is immune from liability under the *Noerr-Pennington* doctrine. However, La Mancha contends that the copyright infringement claim was "sham" (and thus not entitled to protection under *Noerr-Pennington*) on two grounds. First, La Mancha alleges that plaintiffs filed and prosecuted the copyright infringement action knowing it to be without merit [La Mancha Memorandum at 11]. Second, although the counterclaim expressly alleges that plaintiffs violated the antitrust laws by "the filing of *this suit*, . . . [and] bad faith prosecution of *this suit*; . . ." [Counterclaim ¶34; ¶39; and ¶45], La Mancha now contends that it is really complaining about a "pattern of instituting or threatening to institute lawsuits" rather than the filing of a single lawsuit as pleaded in its counterclaim [*id.* at page 6].¹ Neither theory of liability advanced by La Mancha is supported by any evidence which would raise a genuine issue of material fact as to whether the prosecution of the underlying copyright infringement claim was a "sham."

¹ The extensive differences between the charges of the counterclaim as pleaded and La Mancha's characterization of its claims in opposing the motion for summary judgment are discussed more fully in Part III.A, *infra*.

A. The question of whether the underlying copyright infringement action was "baseless" presents a question of law, and plaintiffs' subjective intent is irrelevant to its resolution.

La Mancha seeks to raise a genuine issue of fact with respect to whether the underlying copyright infringement claim here was a "sham" by arguing that plaintiffs filed and prosecuted the action knowing that it was without merit [La Mancha Memorandum at 11-14]. This contention is not only factually unsupported,² it is premised upon an incorrect view of the law. As plaintiffs' moving papers demonstrated, the question of whether the underlying copyright infringement action was "baseless" presents a pure question of law to be resolved by an objective analysis of the merits of the claims asserted in that action. Evidence concerning plaintiffs' subjective motivation for bringing the underlying action or their subjective belief about the merits of their copyright claims is irrelevant to a consideration of whether those claims were baseless and thus potentially "sham."

La Mancha cites the Fifth Circuit's opinion in *In re Burlington Northern, Inc.*, 822 F.2d 518 (5th Cir. 1987) for the proposition that an antitrust defendant's subjective intent in prosecuting prior litigation is relevant in determining whether the prior litigation was a "sham." Significantly, La Mancha cites no Ninth Circuit authority for this proposition and further neglects to note that *Burlington Northern* has been severely criticized by respected antitrust commentators.

Professors Areeda and Hovenkamp have warned of the risks of adopting the subjective intent standard advocated by the *Burlington Northern* court:

Once we understand that a sham is the improper invocation of governmental machinery in

² See Part II.B., *infra*.

order to injure a rival by the invocation itself and without expectation of obtaining a favorable governmental decision, we must consider whether that "expectation" is to be assessed subjectively, according to the particular actor's state of mind, or objectively, according to the expectation of a reasonable person. *We are not persuaded by the arguments for a subjective standard*, which could condemn either more or less than an objective standard. . . .

[T]he inquiry into subjective intent is hazardous and of doubtful utility in most cases. . . .

The subjective standard would condemn more [than would an objective standard] where the antitrust defendant had a reasonable claim in the other forum but did not subjectively know it. Doubt about the wisdom of punishing such a person is reinforced by the difficulty of properly proving subjective intent in the first place. It is often a jumble of mixed impulses, even if we succeed in identifying the particular human being(s) whose intention is relevant. Areeda & Hovenkamp, *Antitrust Law* at 19-20 (1989 Supp.) (emphasis supplied).³

Were the court to accept La Mancha's contention that the "baselessness" of the prior litigation may be determined by reference to evidence of the party's subjective intent in bringing the suit, rather than through an objective analysis of the merits of the earlier claims, unsuccessful litigants would find themselves routinely defending claims of antitrust wrongdoing and responding to burden-

³ The *Burlington Northern* court itself observed that its approach of relying on a litigant's subjective intent in determining whether prior litigation was a sham has not been universally accepted. 822 F.2d at 529, n.8.

some discovery requests propounded in the hope of showing that their motivation in pursuing earlier litigation was somehow "improper." The potential risk of having to defend a subsequent lawsuit and the attendant need to respond to aggressive (and costly) discovery tactics would undeniably discourage the filing of meritorious lawsuits. To avoid the impermissible chilling effect which application of such a "subjective intent" standard would inevitably have on the First Amendment right of access to the courts, the Ninth Circuit requires that a two-prong test be satisfied before a single lawsuit may be deemed a "sham" possibly giving rise to antitrust liability:

When the antitrust plaintiff challenges one suit and not a pattern, a finding of sham requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit and that are themselves anti-competitive. *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984).

In arguing that the underlying copyright infringement claim here was "baseless," La Mancha relies exclusively upon the contention that plaintiffs subjectively "knew" the underlying suit was without merit [La Mancha Memorandum at pages 11-14]. While conceding that this court expressly found that the plaintiffs' copyright infringement claim raised "very close" issues of first impression [*id.* at 11], La Mancha makes no attempt to show how such a suit raising such "very close" issues could ever be "baseless" in the sense of being a sham. La Mancha instead asks the court to accept the existence of a theoretical impossibility, to wit, a case raising "very close" legal issues of first impression which the plaintiff nonetheless somehow "knows" is without merit. Because the issues raised by the underlying copyright infringement claim were not "baseless," the suit by definition cannot have been brought for an improper purpose and evidence regarding

plaintiffs' subjective belief about the merits of the suit is thus irrelevant.

In the context of determining whether a complaint is "baseless" and deserving of sanctions under Rule 11,⁴ it is clear that the inquiry is purely objective without regard to subjective evidence concerning the plaintiffs' purposes in pursuing the litigation. *Townsend v. Holman-Consulting Corp.*, 881 F.2d 788, 792-93 (9th Cir. 1989).

[W]here a complaint is at issue, the improper purpose analysis is not applicable because a non-frivolous complaint cannot be filed for an improper purpose. *Jensen Electric Company v. Moore, Caldwell, Rowland & Dodd, Inc.*, 873 F.2d 1327, 1329 (9th Cir. 1989).

Consequently, a non-frivolous suit having some merit can never be deemed "baseless," even if there is subjective evidence that the plaintiff pursued it for the wrong reasons. Under Rule 11, "a complaint that is well-grounded in fact and law cannot be sanctioned regardless of counsel's subjective intent." *Rachel v. Banana Republic, Inc.*, 831 F.2d 1503, 1508 (9th Cir. 1987). A complaint which unsuccessfully asserts a claim for relief cannot be the basis

⁴ La Mancha quibbles with plaintiffs' analogy to Rule 11 for guidance as to what constitutes "baseless" litigation [La Mancha Memorandum at 10, n. 1]. While it is true that Rule 11 and the "sham" exception to *Noerr-Pennington* serve different interests, La Mancha offers no reason why the Ninth Circuit's discussion of what constitutes "baseless" litigation under Rule 11 is not at least helpful in determining what is "baseless" under *Noerr-Pennington*. Since the Ninth Circuit has used the identical word—to wit, "baseless"—to describe a sham lawsuit under *Noerr-Pennington* [*Omni Resource*] as well as to describe litigation deserving of sanctions under Rule 11 [*Townsend v. Holman Consulting Corp.*, 881 F.2d 788, 792 (9th Cir. 1989) ("the notion of 'frivolousness' for purposes of Rule 11 has been limited to situations where a pleading is manifestly 'baseless' or 'lacking in plausibility'")], the Rule 11 cases surely provide a useful starting point for exploring the contours of this concept.

of an award for sanctions if a "plausible, good faith argument" for a position contrary to the result reached can be made by a competent attorney. *Zaldivar v. City of Los Angeles*, 780 F.2d 823, 833 (9th Cir. 1986).

La Mancha cites *Rickards v. Canine Eye Registration Foundation*, 783 F.2d 1329 (9th Cir. 1986) ("*Rickards II*") as support for the proposition that bringing a single lawsuit "with knowledge that it lacks merit is sufficient to give rise to antitrust liability" [La Mancha Memorandum at 10]. In fact, however, the antitrust defendants' purported knowledge of the lack of merit in the claims asserted in the prior litigation was not even mentioned as a factor in *Rickards II* to support the court's conclusion that the prior litigation was "baseless." Rather, a reading of *Rickards II*, together with the court's earlier opinion in *Rickards v. Canine Eye Registration Foundation*, 704 F.2d 144 (9th Cir. 1983) ("*Rickards I*"), indicates that antitrust liability was imposed on the unsuccessful litigants there because the prior litigation was objectively "baseless."

The complaint in *Rickards I* asserted claims under Sherman Act §1 which were contrary to well-established principles of law. Proof of a violation of Sherman Act §1 requires a showing of concerted action in restraint of trade; yet the record in *Rickards I* demonstrated that the conduct challenged there was unilaterally carried out and thus clearly beyond the reach of Section 1 as a matter of law. *Rickards I*, 704 F.2d at 1453. The *Rickards I* court also found that the plaintiffs were in essence challenging a type of exclusive dealership arrangement; but the court observed "that 'there is a veritable avalanche of precedent'" holding that such arrangements are not unlawful under the antitrust laws. *Rickards I*, 704 F.2d at 1454.⁵

⁵ The "veritable avalanche of precedent" faced by plaintiffs in *Rickards I* stands in marked contrast to the underlying copyright infringement claims here which raised legal issues of first impression which this court noted were "very close."

The claims in the underlying litigation in *Rickards I* were not only contrary to settled legal principles but were factually unsupported as well. The Ninth Circuit noted that "appellants' price-fixing claim similarly is left unsubstantiated by the record" [*Rickards I*, 704 F.2d at 1454] and that "appellants' tie-in theory must likewise be rejected" [*id.*] because there was no evidence that the seller of the tying product had any economic interest in the tied product [*id.* at 1455]. The Section 2 claims in *Rickards I* fared no better, because "the conduct complained of was procompetitive and not anticompetitive." *Rickards I*, 704 F.2d at 1455. The *Rickards I* court thus concluded that "the dismissal of all the antitrust claims was clearly warranted."⁶ *Id.* The paucity of evidence supporting the plaintiffs' antitrust claims in *Rickards* extended to their state law claims, too, which were dismissed, *inter alia*, because plaintiffs failed "to present competent evidence to prove damages." *Rickards I*, 704 F.2d at 1457.

It is thus plain that the *Rickards II* court's conclusion that the underlying litigation in *Rickards I* was "baseless" was fully justified under an objective standard. The plaintiffs in the underlying litigation in *Rickards* did not fail because the court had rejected their position on legal issues of first impression which were "very close." Rather, the rejection of these claims was "clearly warranted" by an "avalanche of precedent" and a paucity of evidence [*Rickards I*, 703 F.2d at 1454-1455]. Indeed, the *Rickards II* court gives no hint that the plaintiffs' subjective intent in prosecuting the prior action played any part in its finding that the underlying litigation was "baseless."

In sum, subjective evidence of intent which motivated the prosecution of underlying litigation is not material in determining whether the first prong of the *Omni Resource* test—a finding that the underlying litigation was "base-

⁶ See footnote 5, *supra*, and accompanying text.

less"—is met. Unlike the claims in *Rickards I*, the underlying litigation here was not "baseless" under an objective test. Since the lawsuit here was not objectively "baseless," the court need not consider, as the *Rickards II* court did, the extent to which it was accompanied by external anticompetitive acts or effects sufficient to satisfy the second prong of the *Omni Resource* test.⁷

B. Plaintiffs did not "know"—indeed, they could not have "known"—that the performances at La Mancha were non-infringing.

La Mancha contends that plaintiffs knew, when they filed their copyright infringement complaint, that the performances at La Mancha were non-infringing and that plaintiffs have on several occasions admitted to having such knowledge. According to La Mancha, this purported knowledge demonstrates that plaintiffs brought this action with the subjective intention of restraining competition (La Mancha Memorandum at 14). As noted above, however, plaintiffs' subjective intent, and hence their "knowledge" regarding the merit of their claims, is irrelevant to the issue whether these claims were "sham" under the *Omni Resource* test. Moreover, even if plaintiffs' subjective intent were somehow deemed relevant, there is no support whatsoever for La Mancha's unfounded argument that plaintiffs "knew," when they filed their copyright infringement action, that the action lacked merit.

The first flaw in La Mancha's argument is its inconsistency with the uncontested fact that plaintiffs' complaint—even though ultimately unsuccessful—presented a non-frivolous, colorable claim. As noted above, in ruling on the

⁷ Moreover, as noted by plaintiffs in their moving papers [see Plaintiffs' Memorandum of Points and Authorities at 14, n. 7] and as further demonstrated herein [see Part III, *infra*] La Mancha would be unable to satisfy the second prong of the *Omni Resource* test as well because the conduct external to the lawsuit cited by La Mancha has not had anticompetitive effects.

parties' cross motions for summary judgment, this Court expressly found that plaintiffs' claims raised a "very close" issue of first impression. Plaintiffs obviously could not have "known" the outcome of this hotly contested issue before the Court decided the issue, much less before plaintiffs commenced the litigation. Indeed, it is self-evident that the outcome of such a close issue of first impression can never be "known" until the conclusion of the litigation. For this reason alone, there is no basis whatever for La Mancha's contention that plaintiffs "knew" when they filed this action that their copyright claims were invalid.

Nor did plaintiffs ever "admit," as La Mancha claims, that performances in hotel rooms are private, not public.⁸ To support their contrary contention, La Mancha first states that two years after alleging in this action that the performances at La Mancha's resort hotel are public, plaintiffs "admitted in *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F.Supp. 315 (M.D. Pa. 1985) [*"Aveco"*] that hotel rooms, dormitory rooms, and apartments 'are not open to the public. . .'" [La Mancha Memorandum at

⁸ It is important to note that even if plaintiffs had admitted that hotel rooms are public—not private—places, this would not have rendered baseless plaintiffs' copyright infringement claims. As the Ninth Circuit explained in affirming this Court's summary judgment on plaintiffs' copyright claims, a performance may be classified as public under either of two numbered clauses contained in the statutory definition of "to perform publicly." 866 F.2d at 280; 17 U.S.C. §101 (definition of "to perform . . . publicly"). A performance is public under Clause (1) (which the Ninth Circuit called the "public place clause"—866 F.2d at 280) if it occurs in "a place open to the public." A performance is public under Clause (2) (which the Ninth Circuit called the "transmit clause"—866 F.2d at 281) if it is transmitted or otherwise communicated "to the public," regardless of whether the transmissions or communications are received in public places. The question whether a hotel room is public, rather than private, is relevant only to Clause (1), the "public place clause." This question, however, is irrelevant to, and hence does not dispose of, plaintiffs' claim that La Mancha's activities also violated Clause (2), the "transmit clause."

12], thereby undercutting the entire basis for *this* action. The sole support offered by defendants for this assertion is the cursory response which plaintiffs made in their *Aveco* Reply Brief to a series of inconsequential hypotheticals which were posed by the *Aveco* defendants in opposition to plaintiffs' summary judgment motion in *Aveco*.⁹ La Mancha's claim of "sham" litigation based on this slim foundation is erroneous.

Hotels were not even in issue in *Aveco*. Defendants in that cause operated a retail video store—not a hotel. The reference to a "motel" in the *Aveco* defendants' summary judgment brief was entirely hypothetical, bore no relation to the issues before the Court and neither required nor received any serious consideration by either the Court or plaintiffs. It is simply unreasonable to infer from plaintiffs' cursory response to the irrelevant reference to a "motel" in the *Aveco* defendants' Brief that plaintiffs "knew" two years earlier, when they filed this action, that their claims against La Mancha were meritless—particularly since the issues in *Aveco* did not require plaintiffs to take any position regarding hotels.

La Mancha next argues that the legislative history of the Copyright Act of 1976 ("1976 Act") demonstrates that plaintiffs "knew" that their copyright claims against La Mancha were invalid. [La Mancha Memorandum at 13.] To support this argument, La Mancha states that, during the legislative process leading to enactment of the 1976 Act, the Register of Copyrights rejected attempts by plaintiffs to extend a copyright owner's exclusive performance rights to "rentals for private viewing in hotel rooms." (*Id.*) This statement is simply not true. The legislative history makes no mention whatsoever of any attempt by plaintiffs to preclude video rentals for viewing in hotel rooms, much

⁹ Copies of the relevant portions of these opposition and reply briefs, as previously submitted by La Mancha to this Court, are attached hereto as Exhibits A and B.

less of any rejection by the Register of such an attempt. The debate between plaintiffs and the Register centered exclusively over the advisability of extending a copyright owner's performance rights to private performances *in the home*. See Report of the Register of Copyrights on the General Revision Of The U.S. Copyright Law at 23-29, 87th Cong., 1st Sess. (Comm. Print 1961) ("Register's 1961 Report").¹⁰ Both the Register and Congress did, as La Mancha states, reject plaintiffs' requests to extend a copyright owner's exclusive performance right to private home performances. But this hardly constitutes a rejection of plaintiffs' contention in this lawsuit that hotel rooms are public, not private, places and that performances in hotel rooms therefore constitute public performances.

La Mancha next contends that Congress conclusively stated in Section 111(a)(1) of the 1976 Act (and in that section's legislative history) that hotel rooms are private, not public, places for purposes of Clause (1) of the statutory definition of "to perform . . . publicly." [La Mancha Memorandum at 13].¹¹ This argument is also erroneous.

Section 111(a)(1) provides an exemption solely for performances which are public under Clause (2), not Clause (1). In particular, section 111(a)(1) exempts from liability secondary transmissions (i.e., retransmissions) of local broadcast signals which, in the absence of the exemptions, would constitute infringing public performances only under Clause (2)—not under Clause (1). The exemption applies solely to "transmissions," which are mentioned only in Clause (2). Since section 111(a)(1) has nothing to do with Clause (1), it is completely illogical to assume that Congress intended to provide in section 111(a)(1) that hotel rooms are, or are not, "places open to the public" under

¹⁰ Copies of the relevant pages from the Register's 1961 Report are attached hereto as Exhibit C.

¹¹ See note 8, *supra*.

Clause (1).¹² The only logical, and hence permissible, interpretation is that Congress used the phrase "private lodgings" in section 111(a)(1) (and in the section's legislative history) merely to describe areas of a hotel to which Clause (2) retransmissions would be exempt, not to provide that hotel rooms must be treated as private places under Clause (1). Indeed, the fact that this Court found the issue "very close"—and did not even cite, much less rely upon, section 111(a)(1) in its Findings of Fact and Conclusions of Law—itself demonstrates the fallacy of La Mancha's argument that section 111(a)(1) conclusively settles that hotel rooms are private, not public, places for purposes of Clause (1).¹³

La Mancha's final argument regarding plaintiff's purported "knowledge" centers around plaintiffs' attempts in 1983 to persuade Congress to amend the "first sale doctrine" found in 17 U.S.C. § 109(a) [La Mancha memorandum at 13-14]. La Mancha irresponsibly states that this attempt to amend the Copyright Act was directed specifically at, among other things, "rentals for . . . private viewing in hotel rooms." (*id.*). This is simply not true. The amendment proposed by plaintiffs in 1983 would merely have permitted motion picture copyright owners to share in revenues from retail rentals of their motion pictures. See S.33, 98th Cong., 1st Sess. (1983); Statement of a Panel Consisting of Jack Valenti, President, Motion Picture Association of America, et al. (April 29, 1983), *re-*

¹² See *Pac. Mut. Life Ins. Co. v. Amer. Guar. Life Ins. Co.*, 722 F.2d 1498, 1500 (9th Cir. 1984) (statutory interpretation may not defy common sense); *Ruiz v. Morton*, 462 F.2d 818, 820 (9th Cir. 1972) (in interpreting a statute, Court may not assume that Congress engaged in superfluous act); *Rockbridge v. Lincoln*, 449 F.2d 567, 571 (9th Cir. 1971) (same).

¹³ It should also be noted that section 111(a)(1) exempts transmissions to hotel rooms *only* when no direct charge is made to the occupants of the hotel rooms. Here, in contrast, La Mancha made a direct charge to its guests for the right to view plaintiffs' motion pictures in their rooms.

printed in *Hearing before the Subcommittee on Patents, Copyrights and Trademarks of the Committee on the Judiciary of the United States Senate on S.32 and S.33 (Comm. Print. 1983)*.¹⁴ The amendment had nothing to do with hotels. Nor, as La Mancha also suggests [La Mancha memorandum at 14], did plaintiffs—either in this lawsuit or in proposing their amendment to the first sale doctrine—ever content that “rentals of videos for private viewing” are not permitted under the first sale doctrine. In short, plaintiffs’ attempt in 1983 to amend the first sale doctrine had nothing at all to do with the issue in this case, i.e., whether performances in publicly available hotel guest rooms constitute public, rather than private, performances.

Consequently, even if evidence that plaintiffs subjectively “knew” that their copyright infringement claims lacked merit were relevant to the inquiry as to whether the underlying litigation was “baseless,” it is plain that there is no such evidence here. The motion for summary judgment cannot be denied on this ground.

C. The underlying litigation was not part of a “pattern of baseless claims.”

Typically the “sham” exception to the *Noerr-Pennington* doctrine is not invoked in the case of the prosecution of a single unsuccessful lawsuit. Rather, it is normally limited to the situation where an antitrust defendant files a series of baseless suits without regard to the merits of any particular claim. See *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 515, 92 S.Ct. 609, 32 L.Ed.2d 642 (1972) (involving repeated opposition to competitors’ applications for operating rights to haul goods, claims

¹⁴ S.31 and S.175, relied upon by La Mancha [La Mancha Memorandum at 13], did not at all pertain to the first sale doctrine. Those bills related solely to the unrelated issue of off-the-air recording of television programming for home use. See *Sony Corporation of America, Inc. v. Universal City Studios, Inc.*, 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984).

which effectively denied the competitors access to the tribunal from whom the rights were sought); *Otter Tail Power Co. v. United States*, 410 U.S. 366, 380, 93 S.Ct. 1022, 35 L.Ed.2d 359 (1973) (involving private power company’s repeated institution of litigation designed to prevent issuance of municipal bonds to be used in financing competitive municipal power system). The case at bar bears no resemblance to the types of litigation abuses condemned in *California Motor Transport* or *Otter Tail*.

First, La Mancha does not even *allege* in its counterclaim that plaintiffs engaged in a pattern of baseless litigation. Rather, La Mancha alleges only that the filing and prosecution of *this single lawsuit* was a “sham” (e.g., Counterclaim ¶34).

Second, there is no evidence before the court of any pattern of repeated, baseless claims raising similar issues. The vague references by La Mancha to other litigation¹⁵ are not *evidence* of a “pattern of baseless claims.” Although La Mancha argues that it is “aware of one other such threatened lawsuit,” it does not favor the court with any specifics regarding the other suit, such as the identity of the parties, the nature of the claims asserted or its outcome.¹⁶

¹⁵ La Mancha makes the following argument which is not only bereft of factual support but which also directly contradicts the allegations of its counterclaim: “Irwin has alleged that counterdefendants have engaged in an illegal pattern of activity. This pattern includes filing or threatening to file other lawsuits. Irwin is already aware of at least one other such threatened lawsuit.” [La Mancha Memorandum at 14, lines 20-23].

¹⁶ Moreover, plaintiffs have found no case which holds that the filing of only two lawsuits constitutes a “pattern of baseless claims,” where each lawsuit seeks to clarify a single issue of statutory interpretation or first impression. In *California Motor Transport*, by contrast, the defendants had repeatedly instituted litigation in Pavlovian response to attempted competition for the alleged purpose of “bar[ring] their competitors from meaningful access to adjudicatory tribunals and in the usurp that decisionmaking process” [404 U.S. at 512].

La Mancha has not *pleaded* the existence of a pattern of repeated baseless claims. Nor has it come forward with any *evidence* to show that plaintiffs engaged in such a practice. La Mancha is thus relegated to satisfying the two-part *Omni Resource* test for showing that a *single lawsuit* might be a "sham." Having failed to satisfy the objective first *Omni Resource* criterion—i.e., a showing that the underlying litigation was "baseless"—La Mancha has failed in its attempt to characterize the copyright infringement action here as a "sham" to exclude it from *Noerr-Pennington* protection. The underlying litigation complained of by La Mancha is constitutionally protected under *Noerr-Pennington* and cannot be the basis of antitrust liability.

D. Threats to bring litigation and attendant publicity thereto are protected under *Noerr-Pennington*.

Although such a claim is not pleaded in La Mancha's counterclaims, La Mancha argues in opposition to this motion for summary judgment that plaintiffs violated the antitrust laws not only by filing this litigation but also by threatening to bring similar litigation against other hotels [La Mancha Memorandum at 3, 6, 15].

The first flaw in such a claim is that La Mancha has presented no *evidence* to support it. Not a single example of such publicity or "threats" is attached to La Mancha's opposition papers. Nor has La Mancha presented any affidavits from third party hotel operators stating that they were inhibited by any such publicity or "threats" from doing *anything*.¹⁷

Moreover, even if La Mancha had presented such evidence, it would be insufficient as a matter of law to overcome plaintiffs' First Amendment rights to publicize their

¹⁷ As noted below [see Part III.B., *infra*], the declaration of defendant Irwin constitutes pure speculation and, hence, does not suffice to support La Mancha's claimed loss of third party sales.

intention to protect their rights through litigation. If prosecution of a lawsuit itself is protected under *Noerr-Pennington*, no liability can attach to threats to bring similarly-protected litigation.

If resort to the courts is protected by *Noerr-Pennington*, then threats to do so, without more, are likewise immune from liability. *Aircapital Cablevision, Inc. v. Starlink Communications Group, Inc.*, 634 F.Supp. 316, 326 (D. Kan. 1986).

This principle is especially applicable to protect "threats to litigate issues that are not well-settled" like those involved in the copyright infringement action here. *Consortium, Inc. v. Knoxville International Energy Exposition*, 563 F.Supp. 56, 60 (E.D.Tenn. 1983).

Publicity by plaintiffs in trade publications that they intended to protect their perceived copyright interests [La Mancha Memorandum at page 3] is also protected.

Likewise, in the case at bar the underlying litigation was not "sham"; therefore, the attendant publicity is protected by *Noerr-Pennington*. *Aircapital, supra*, 634 F.Supp. at 326.

Consequently, La Mancha's belated contention that plaintiffs publicized this suit and threatened similar suits against other hotels is, as a matter of law, insufficient to support a claim of antitrust wrongdoing. Even if La Mancha had evidence to show that such publicity and threats occurred, such activities constitute the exercise of constitutionally-protected rights under *Noerr-Pennington* and cannot form the basis of antitrust liability.

III.

LA MANCHA HAS ADDUCED NO EVIDENCE WHICH WOULD SHOW THAT ANY REFUSAL BY PLAINTIFFS TO LICENSE VIDEOCASSETTE RIGHTS TO LA MANCHA HAS UNREASONABLY RESTRAINED TRADE OR CAUSED ANTITRUST INJURY TO LA MANCHA.

A. La Mancha may not avoid summary judgment by reference to unpleaded claims purporting to show a restraint on trade.

La Mancha complains that plaintiffs, when moving for summary judgment, make an argument which "mischaracterizes Irwin's claims" [La Mancha Memorandum at page 2]. In evaluating this assertion, the Court should be mindful that La Mancha, without seeking leave of court or following other appropriate procedures to place plaintiffs on notice of the altered nature of its claims, has dramatically re-couched its claims of wrongdoing in order to oppose this motion for summary judgment. It is thus not surprising that when La Mancha summarizes the allegations of anticompetitive activity which supposedly form the basis of its antitrust counterclaims [La Mancha Memorandum at page 3], it does not cite to any specific portions of its counterclaim in which such charges are made.

In its antitrust counterclaims, La Mancha specified only three types of conduct which it contended constitute antitrust violations: "[i] the filing of this suit which is a sham and false and known by plaintiffs to be so; [ii] bad faith prosecution of this suit; [iii] boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs" [Counterclaim ¶34; ¶39 and ¶45]. La Mancha also referred to other unspecified "activities to . . . monopolize . . . trade . . . and to destroy counterclaimants' business" [e.g., Counterclaim ¶34]. However, the counterclaim gives no hint as to the nature of the wrongdoing being charged through these vague allegations. Thus, for example, La Mancha gave no notice to plaintiffs in its pleading that it

is making a claim against plaintiffs' for "placing threatening advertisements in hotel trade journals" [La Mancha Memorandum at page 3, lines 15-17] or "discriminating among licensees by charging different license fees to different distributors, possibly to punish distributors who sell to businesses that rent videos" [d. at lines 18-20]. Nor does La Mancha expressly or impliedly suggest in its pleading that it has been damaged because plaintiffs interfered with La Mancha's ability to venture into other activities such as selling video hardware to other hotels [Cf. Irwin Decl. ¶7].¹⁸

Finding itself unable to support the legal adequacy of its counterclaim as pleaded—particularly its inability to show any restraint of trade from the alleged concerted refusal to license La Mancha rights to rent videodiscs to hotel guests, which are rights La Mancha has freely exercised throughout this litigation even without licenses from plaintiffs—La Mancha is plainly attempting to divert the court's attention by faulting plaintiffs for not addressing claims of antitrust wrongdoing which have never been leveled against them. This sleight-of-hand does not suffice to support the viability of the antitrust claims actually pleaded, nor does it serve to deny plaintiffs the right to summary judgment.

B. La Mancha has adduced no evidence which would establish that any refusal by plaintiffs to license videodisc rights to La Mancha could have unreasonably restrained trade or impeded La Mancha's ability to compete.

La Mancha alleges that plaintiffs engaged in a concerted refusal to license videodisc rental rights to La Mancha [Counterclaim ¶34; ¶39 and ¶45]. Plaintiffs have moved

¹⁸ These allegations are not only unpleaded in the counterclaim, they are totally unsupported by any evidence adduced in opposition to this motion [see Part III.B, *infra*].

for summary judgment on the ground that any concerted refusal by plaintiffs to grant rights which the Ninth Circuit has ruled La Mancha already has and which La Mancha has exercised throughout this litigation cannot have restrained trade or impeded La Mancha's ability to compete in violation of the antitrust laws. La Mancha has come forward with no evidence to rebut plaintiffs' showing.

To attempt to show the existence of an unreasonable restraint of trade, La Mancha relies exclusively on the declaration of defendant Kenneth Irwin. However, the Irwin declaration does not contain evidence which, if believed by the trier of fact, demonstrates that any refusal by plaintiffs to grant videodisc licenses to La Mancha has unreasonably restrained trade or impeded La Mancha's ability to compete.

Irwin does not quarrel with the fact that under the Ninth Circuit's decision herein, La Mancha did not need a license or other permission from plaintiffs in order to carry out an in-room video rental program at La Mancha's hotel.¹⁹ Instead, Irwin surmises in his declaration that "we have been precluded from expanding our in-room video rental program to other hotels as a direct result of Counterdefendants' intimidation, threats of litigation and refusal to license" [Irwin Decl. ¶6]. There is, however, no foundation for this conclusory statement by Mr. Irwin.

The speculative nature of Irwin's "evidence" is highlighted by the following portion of his declaration:

I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterdefendant movie studios. *I believe* further that larger chains, in particular, were reluctant to make a substantial investment in video technology absent a license

¹⁹ Indeed, Irwin and La Mancha have acted without plaintiffs' permission throughout this litigation.

from the movie studios. [Irwin Decl. ¶3] (emphasis supplied).

Significantly, there are no facts in Irwin's declaration setting forth a foundation for these beliefs. Mr. Irwin is plainly speculating as to why other hotels did or did not invest in in-room video viewing systems. Speculation unsupported by evidence is not sufficient to defeat a motion for summary judgment.

La Mancha offers no excuse whatever for its failure to obtain competent evidence to support its contention that plaintiffs' alleged concerted refusal to grant in-room videodisc licenses unreasonably restrained trade. If third party hoteliers had actually refused to install in-room video facilities as a result of any conduct by plaintiffs, La Mancha could clearly have obtained declarations or deposition testimony from those potential customers in support of its contention that those customers refused to deal with La Mancha as a result of plaintiffs' conduct. This they did not do.

In sum, the Irwin declaration simply contains no *evidence* that the alleged refusal by plaintiffs to grant videodisc licenses caused any restraint of trade. There are thus no genuine issues of material fact which would preclude entry of summary judgment in plaintiffs' favor on this claim.

C. La Mancha has not suffered antitrust injury as a result of any concerted refusal by plaintiffs to grant videodisc licenses to other hotels.

Plaintiffs' moving papers demonstrate that La Mancha cannot have suffered antitrust injury from a concerted withholding of rights which La Mancha has exercised throughout this litigation. La Mancha does not attempt to refute this contention. Instead, La Mancha seeks to rebut this argument and establish the existence of antitrust injury by arguing that plaintiffs' alleged refusal to grant

other hotels videodisc licenses for exhibition of videodiscs in hotel rooms has somehow prevented La Mancha from selling videodisc player equipment to those other hotels [Irwin Decl. ¶3].

First, it should be noted that such a claim must fail because La Mancha did not plead it in its counterclaim. The only specie of damages pleaded by La Mancha in its counterclaim was attorney's fees incurred in defending the underlying copyright infringement action [Counterclaim ¶36, ¶42 and ¶46.]

Second, as noted above [see Part III.B., *supra*] La Mancha has presented no *evidence* (as opposed to Irwin's inadmissible speculation) to support such a claim. Moreover, even in speculating that other hotels failed to install in-room video systems as a result of plaintiffs' conduct, Irwin focuses on plaintiffs' threats of litigation, rather than any concerted refusal to grant licenses, as the cause of other hotels' conduct.²⁰ Since any threats of litigation by plaintiffs would be immune under *Noerr-Pennington* [see Part II.D., *supra*], even anticompetitive effects flowing from such protected activity would not give rise to antitrust liability. Cf. *Rickards II*, *supra*, 783 F.2d at 1333 (no antitrust liability for group boycott where anticompetitive effects resulted from lawsuit rather than from boycott; antitrust liability imposed only after finding that prior lawsuit was "baseless").

Third, La Mancha lacks standing to assert a claim for lost revenues from sale of videodisc equipment to other hotels unable to obtain licenses from plaintiffs for exhibition of movies on videodiscs in hotel rooms. In essence, La Mancha contends that it was a supplier of videodisc equipment to the hotel market and that it has been inci-

²⁰ Irwin states as follows: "I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterdefendant movie studios" Irwin's Decl. ¶3 (emphasis added).

dentally affected by a refusal on the part of plaintiffs to grant copyright licenses to participants in the market. Such losses are too remote to constitute "antitrust injury" and confer standing on LaMancha to challenge this alleged antitrust violation.

In *Associated General Contractors, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 103 S.Ct. 897, 74 L.Ed.2d 723 (1983), the Supreme Court held that a union did not have standing to challenge a conspiracy by a rival union to restrain trade in the market for construction subcontracts. Even though the plaintiff union was a supplier of workers for the subcontracting market allegedly restrained, and even though the union might be incidentally adversely affected by a lessening of competition in that market, the Supreme Court nonetheless held that the plaintiff's injuries "were only an indirect result" of an antitrust violation directly affecting the contractors and thus were not recoverable. 459 U.S. at 541-543. Interpreting *Associated General Contractors*, the Ninth Circuit has stated that "the requirement that the alleged injury be related to anticompetitive behavior requires, as a corollary, that the injured party be a participant in the same market as the alleged malefactors." *Bhan v. NME Hospitals, Inc.*, 772 F.2d 1467, 1470 (9th Cir. 1985).

Under La Mancha's scenario pursuant to which it lost the opportunity to sell videodisc player equipment to hotels who were unable to obtain licenses from plaintiffs, La Mancha is not a participant in the market as to which the antitrust violation is directed. As a supplier of video equipment, La Mancha is *not* seeking losses sustained in its capacity as a would-be, but unsuccessful, licensee of the videodisc licenses which were allegedly withheld through concerted activity. Instead, like the union in *Associated General Contractors*, La Mancha is at best a supplier of a commodity (here, videodisc players) to be utilized in the market allegedly restrained as a result of the defendants' alleged unlawful activity. Like the losses unsuccessfully

sought by the union in *Associated General Contractors*, the injuries allegedly suffered by La Mancha in its capacity as a would-be supplier of videodisc equipment to other hotels are, at most, derivative of a restraint allegedly imposed on others (here, *other* hotels who were potential licensees of videodisc rental rights) who are the targets of the alleged concerted refusal to deal. Being "only an indirect result" of the antitrust violation, however, these damages are not compensable under the antitrust laws. *Associated General Contractors*, 459 U.S. at 541.

La Mancha has thus failed to show how it could suffer antitrust injury from the challenged conduct: it cannot show it suffered antitrust injury in its capacity as a potential licensee of in-room videodisc license rights, because La Mancha has continuously exercised these rights even absent a license, and it cannot show it suffered antitrust injury in its capacity as a video hardware supplier to other would-be licensees, because such injuries are too remote to constitute "antitrust injury." *Associated General Contractors*, *supra*.

D. La Mancha has no evidence that plaintiffs engaged in an unlawful group boycott directed toward it.

In its counterclaim, La Mancha charges plaintiffs with "boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs. . ." [e.g., Coounterclaim ¶34]. In its opposition to the pending motion for summary judgment, however, La Mancha makes plain that it has no evidence to support such a charge.

In order to sustain a claim that plaintiffs concertedly refused to license videodisc rights to La Mancha, La Mancha would need to show the following: (i) actual refusals by plaintiffs to deal with La Mancha which (ii) were the result of concerted, rather than unilateral, decisions by plaintiffs. While La Mancha would probably need discovery to establish that any refusal by plaintiffs to deal with La Mancha was the result of concerted action, it is clear that

La Mancha needs no discovery to come forward with evidence that plaintiffs refused to deal with it. Surely Irwin knows without the benefit of discovery whether plaintiffs refused La Mancha's attempts to obtain videodisc performance licenses. Yet in his declaration, Irwin makes plain that the only refusal by plaintiffs to license videodisc rights to La Mancha occurred *in response to Irwin's attempts to settle this litigation*. Irwin thus states as follows:

After the institution of this litigation, I attempted for more than a year to obtain licenses from Counterdefendants to use and install in-room video systems in guest lodgings. None of the counterdefendants would grant a license on reasonable terms. [Irwin Decl. ¶5] (emphasis supplied).

Irwin's claim of a concerted refusal to deal is plainly premised upon plaintiffs' alleged refusal to settle this litigation by licensing videodisc right to him after the lawsuit was underway rather than on any pre-litigation group boycott. However, a refusal to settle a lawsuit hardly constitutes a boycott or other antitrust violation. A refusal to settle a lawsuit constitutes no more than an insistence on pursuing litigation protected by the *Noerr-Pennington* doctrine and is thus itself immune from antitrust liability.

In sum, La Mancha not only lacks evidence of anticompetitive effect and antitrust injury resulting from plaintiffs' alleged concerted refusal to deal, *it also lacks evidence that an unprivileged concerted refusal to deal took place at all.*

IV.

LA MANCHA HAS NOT SHOWN THAT ANY FAILURE BY PLAINTIFFS TO ACCORD DISCOVERY TO LA MANCHA HAS IMPAIRED LA MANCHA'S ABILITY TO OPPOSE THIS MOTION.

La Mancha asserts that plaintiffs are not entitled to entry of summary judgment "because counterdefendants

have refused to cooperate in discovery" [La Mancha Memorandum at 8]. If, in fact, La Mancha has not received discovery it needs to oppose this motion, this is a consequence of its insistence upon propounding overly-broad discovery requests coupled with its failure to move the court to compel the discovery which was purportedly withheld. Under these circumstances, there is no need to defer ruling on the pending motion for summary judgment to allow more time for discovery.

On April 17, 1989, the court held a status conference during which it entered a comprehensive pretrial scheduling order relating to the counterclaim [Seal Decl. ¶7]. Immediately thereafter, plaintiffs' counsel met with La Mancha's counsel in the courthouse corridor to discuss resumption of discovery.²¹ Plaintiffs' counsel invited La Mancha's counsel to telephone them immediately to discuss outstanding discovery issues [*id.*]. Notwithstanding this invitation, it was not until June 27, 1989—*more than two months after the status conference with the court*—that La Mancha's counsel next contacted plaintiffs' counsel to discuss further discovery, including the production of documents [*id.* ¶8].

Plaintiffs produced documents to La Mancha during August and September 1989 [Seal Decl. ¶8]. Plaintiffs legitimately refused, however, to comply with those document requests which were overbroad as to time period, subject matter and geographical scope. In late September and early October 1989, La Mancha's counsel contacted plaintiffs' counsel and requested additional production of documents in response to these overbroad requests [*id.* ¶10]. The parties were able to narrow their remaining differences regarding the scope of discovery to two main issues: (i) the time period for which documents would be produced;

²¹ In March 1986, the court stayed discovery pending the outcome of the earlier appeal in this case [Seal Decl. ¶6].

and (ii) the subject matter of the documents to be produced.

With regard to the issue of time period, La Mancha contends it is entitled to production of certain documents pertaining to events as early as 1961, even though it would not be entitled to damages for any period earlier than four years prior to the institution of the counterclaim on February 9, 1984 [Seal Decl. ¶11; Seal Decl. Exh. 3]. Regarding subject matter, La Mancha insists that it is entitled to all documents which contain any restriction on the exhibition of videodiscs in any form of "lodging"—including places such as college dormitories, hospitals, rest homes, nursing homes, apartments and prisons [Seal Decl. ¶12]—even though (a) La Mancha has never sought to exhibit videodiscs in these types of places²² and (b) the counterclaim does not allege that plaintiffs unlawfully restricted exhibition of videos in such places.

Moreover, notwithstanding its contention that it has been wrongfully denied discovery, *La Mancha failed to make a timely effort to compel the discovery sought*. In early October 1989, counsel for plaintiffs invited La Mancha's counsel to enlist the court's assistance in resolving the pending discovery disputes [Seal Decl. ¶13]. Plaintiffs' counsel explained to La Mancha's counsel that they would need to file a joint stipulation focusing upon the parties' contentions relating to the remaining areas of disagreement [*id.*]. Almost two months then passed before counsel for La Mancha submitted a draft of a proposed joint stipulation to plaintiffs' counsel for consideration [*id.* ¶15]. Plaintiffs' counsel did not even receive the draft joint stipulation until *December 4, 1989*, two weeks before the date scheduled for plaintiffs' motion for summary judgment which

²² To the contrary, defendant Irwin states only that he "attempted to develop a market for the sale and installation of videodisc player equipment to other hotels for private, in-room viewing" [Irwin Decl. ¶3].

was served on September 22, 1989 [*id.*]. However, neither this draft, nor a later draft furnished plaintiffs on December 7, 1989, set forth La Mancha's position with respect to any of these discovery issues, thus making it impossible for plaintiffs' counsel to prepare responses to be included in a joint stipulation [*id.* ¶16-¶18].

La Mancha can hardly argue that plaintiffs' motion for summary judgment must be denied pending resolution of discovery disputes when La Mancha has been so dilatory in bringing these discovery disputes before the court for resolution. Indeed, it appears that *La Mancha has made a calculated decision not to press for discovery—obviously concluding that if it received all the discovery it sought, it would be in no better position to oppose the pending motion for summary judgment than it is now*—all for the sole purpose of affording themselves the opportunity to complain to the court that the motion for summary judgment must be denied because discovery has not been forthcoming.

Moreover, La Mancha cannot argue that the motion for summary judgment must be denied to permit it to obtain further discovery where, as here, such discovery would be of no use to La Mancha because plaintiffs are entitled to summary judgment *as a matter of law*. No amount of discovery will enable La Mancha to meet its burden of showing that the underlying copyright infringement suit here was "baseless" or that any concerted withholding of rights which La Mancha has exercised throughout this litigation has unreasonably restrained trade in a manner causing La Mancha antitrust injury. La Mancha's theories are insupportable as a matter of law, and no amount of discovery will aid La Mancha in its futile attempts to base a claim of antitrust wrongdoing on these theories.

V.

DEFENDANTS' STATE LAW CLAIMS SHOULD FALL WITH THE FEDERAL CLAIMS.

La Mancha argues [La Mancha Memorandum at 19] that its state law claims are "ancillary," rather than "pendent" claims, and that such ancillary claims "cannot be dismissed," but rather "must be tried in this action." However, none of the authority that La Mancha cites supports this argument. According to established case law, La Mancha's state claims, whether ancillary or pendent, should be dismissed with the federal claims, absent a finding that dismissal would be unjust. *See, e.g., Danner v. Himmelfarb*, 858 F.2d 515 (9th Cir. 1988).

"[A]ncillary jurisdiction, like pendent jurisdiction, is a 'doctrine of discretion.'" *Danner*, 858 F.2d at 523. Ancillary jurisdiction is based upon factors such as "judicial economy, convenience and fairness to litigants." *Id.*, 858 F.2d at 523. Absent those considerations, "a federal court should hesitate to exercise jurisdiction over state claims Certainly, if the federal claims are dismissed before trial, even though not insubstantial in a jurisdictional sense, the state claims should be dismissed as well.'" *United Mine Workers v. Gibbs*, 383 U.S. 715, 726, 86 S.Ct. 1130, 16L.Ed.2d 218 (1966).

Pursuant to *Gibbs*, the Ninth Circuit's "practice [is] to dismiss state law claims once the federal claim has been resolved." *Danner*, 858 F.2d at 523. La Mancha offers no reason why the Court should deviate from the general practice in this Circuit and retain jurisdiction of La Mancha's state claims once La Mancha's federal claims are dismissed. The inconvenience of re-filing in state court is not enough. "Having to bring parallel suits may be a hardship, but it is not an injustice." *Id.* 858 F.2d at 524.

If the Court grants summary judgment on La Mancha's federal antitrust claims, the Court should also dismiss La

Mancha's state claims, be they categorized as "ancillary" or "pendent."

CONCLUSION

For the reasons set forth herein and in plaintiffs' moving papers, plaintiffs' motion for summary judgment should be granted.

Dated: Dec. 11, 1989 ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
STACEY M. BYRNES

By Stephen A. Kroft
Stephen A. Kroft
Attorneys for Plaintiffs and
Counterdefendants

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIM

DECLARATION OF JAMES L. SEAL

Date: December 18, 1989

Time: 10:00 a.m.

I, James L. Seal, declare as follows:

1. I am a member of the bar, duly admitted to practice before this court. I am a partner in the firm of Rosenfeld, Meyer & Susman, counsel of record for the plaintiffs and counterclaim defendants in this action. I am one of the attorneys responsible for preparing this matter for trial on behalf of the plaintiffs, and in that capacity, I have gained first hand knowledge of the matters hereinafter set forth.

2. As part of its opposition to the plaintiffs' pending motion for summary judgment, La Mancha has submitted the Declaration of Patrick J. Coyne. In Mr. Coyne's declaration, he suggests that La Mancha has been denied discovery which it needs in order to obtain evidence in

support of its case and to oppose the plaintiffs' motion for summary judgment. Mr. Coyne's declaration does not, in my view, accurately set forth the status of discovery with respect to the counterclaim herein.

3. Mr. Coyne states that the plaintiffs have refused to provide any information regarding La Mancha's assertion of copyright misuse [Coyne Decl. ¶ 4] or regarding the issues of the alleged monopoly which plaintiffs purportedly maintain over the rental market for videos [*id.* ¶ 5]. To read Mr. Coyne's declaration, one might reasonably assume that La Mancha has received no discovery at all from the plaintiffs to date. This is not true. La Mancha has received substantial production of documents in categories which Mr. Coyne has told us relate to La Mancha's claims of copyright misuse and monopolization of some relevant market for video rentals.

4. In January 1985, La Mancha served a request for production of documents pursuant to Rule 34, Federal Rules of Civil Procedure, on all plaintiffs. (Appended to this declaration as Exhibit 1 is an exemplar of this request served on plaintiff Columbia Pictures Industries, Inc.). By reason of the extreme breadth of the categories of documents requested, the plaintiffs lodged a number of objections to the request, particularly those aspects of the request pertaining to La Mancha's counterclaim.

5. In an effort to reach an acceptable compromise and to accord La Mancha discovery to which it was legitimately entitled, plaintiffs offered to make available certain categories of documents which La Mancha had requested. On February 11, 1986, Maren Christensen, a partner of Rosenfeld, MKeyer & Susman, wrote a letter to counsel for La Mancha setting forth those categories of documents which the counterclaim defendants would be willing to produce. A true and correct copy of Ms. Christensen's letter to La Mancha's counsel is appended hereto as Exhibit 2.

6. In March 1986, the court stayed all discovery respecting the counterclaim pending a resolution of the appeal from the entry of summary judgment in favor of La Mancha on the complaint. Consequently, plaintiffs deferred producing the documents referred to in Ms. Christensen's letter pending the appeal.

7. On April 17, 1989—after the Ninth Circuit Court of Appeals had affirmed the entry of summary judgment in the defendants' favor on the complaint—a status conference was held with the court. I personally attended that hearing along with Stephen A. Kroft, another partner in Rosenfeld, Meyer & Susman. At that conference, the Court entered a scheduling order setting forth a comprehensive schedule of discovery and other pretrial matters. Immediately after the hearing on April 17, Mr. Kroft and I met with Jeffrey King, one of the attorneys for La Mancha, in the courthouse corridor to discuss compliance with the Court's scheduling order. Mr. Kroft and I invited Mr. King to call us that same day or soon thereafter to get discovery underway.

8. Notwithstanding our offer made on April 17, it was not until June 27, 1989—*over two months later*—that La Mancha's counsel next contacted us to discuss re-activation of discovery. When contacted by La Mancha's counsel in June 1989, Mr. Kroft and I again offered to produce the documents referred to b Ms. Christensen in February 11, 1986, letter [Exhibit 2]. Without prejudice to its rights to seek additional documents, La Mancha agreed to accept and review these documents. These documents were produced and made available to La Mancha during the months of August and September 1989.

9. Included in the documents produced for La Mancha were exemplars of warning labels placed upon videocassettes distributed by plaintiffs. Plaintiffs also produced hundreds of pages of license agreements between themselves and various entities who manufactured and distrib-

uted video tapes for the plaintiffs. Plaintiffs have also produced cease-and-desist letters which had been sent by some plaintiffs to entities who were engaged in activities which the plaintiffs believed to be unlawful exhibition of copyrighted videocassettes.

10. During the months of September and October 1989, Stephen Kroft and I, acting on behalf of plaintiffs, had a series of discussions with Mr. Coyne regarding discovery relating to the counterclaim. During these discussions, Mr. Coyne asked for production of additional documents beyond those we have been willing to produce. Although we have narrowed the areas of disagreement between us, we have not reached agreement as to which documents will in fact be produced. Disputes remain regarding the time period for which documents will be produced and the subject matter of documents which are properly discoverable.

11. Regarding time period, Mr. Coyne insists that La Mancha is entitled to some documents relating to a time period as early as 1961 and that all copyright notices on videocassettes and manufacturing license agreements pertaining to the time period commencing with the effective date of the Copyright Act of 1976 (January 1, 1978) to date must be searched for and produced. We disagree with La Mancha's entitlement to documents covering this time period of almost twelve years, since La Mancha, at most, would be entitled to damages under its counterclaim for the four-year period prior to its filing, *i.e.*, from February 9, 1980, through February 9, 1984. Consequently, plaintiffs have offered to make available—and have made available—relevant documents pertaining to the time period 1980-1984.

12. Another area of disagreement remains with respect to the subject matter of documents to which La Mancha is entitled. Plaintiffs agree that La Mancha is entitled to any documents which plaintiffs might have which restrict the exhibition of videocassettes and videodiscs in hotels

and motels, the only market in which La Mancha competed during the four years prior to the filing of the counterclaim. La Mancha insists, however, that it also entitled to production of documents which might contain restrictions on the exhibition of videocassettes and videodiscs in *any* kind of "lodging," including places such as college dormitories, hospitals, rest homes, apartments and prisons, even though such "lodgings" bear no resemblance to the hotel/motel operation run by La Mancha.

13. In light of the foregoing, Mr. Kroft and I have told Mr. Coyne that his discovery requests are too broad and must be further narrowed. On October 5 or 6, 1989, at the conclusion of one of our telephone discussions with Mr. Coyne, Mr. Kroft and I invited Mr. Coyne to enlist the court's assistance in obtaining further discovery if he felt we were wrongfully withholding discovery that he was entitled to. We explained to him the need to file a joint stipulation [Local Rule 7.15.2] setting forth the exact areas of disagreement between us which required resolution by the court.

14. On October 12, 1989, Mr. Coyne wrote us a letter setting forth his understanding of the areas as to which we had reached agreement regarding the counterclaimants' discovery demands and those areas where we continued to disagree. A true and correct copy of that letter is appended hereto as Exhibit 3. However, it was not until December 4, 1989—*almost two months later* and virtually on the eve of the hearing on plaintiffs' motion for summary judgment—that we next heard from La Mancha regarding its desire to move to compel further discovery.

15. On December 4, Laura Barns, one of La Mancha's counsel, sent me a document which she described as a draft joint stipulation to be filed in connection with La Mancha's discovery motion [see letter from Laura Barns to James L. Seal appended as Exhibit 4 hereto and draft joint stipulation appended hereto as Exhibit 5]. In fact,

the proposed "joint stipulation" we received from Ms. Barns was nothing of the sort. The document sent to us [Exhibit 5 hereto] was merely list a of sixteen issues relating to discovery which allegedly remained unresolved. *The document sent to us did not contain La Mancha's positions with respect to any of the discovery issues enumerated therein.* Nonetheless, La Mancha—having taken almost two months to send us this document which we did not receive until December 4—insisted that we prepare our written positions with respect to each of these issues "in final" and return them to La Mancha's counsel no later than December 8 [see Barns letter (Exhibit 4)].

16. La Mancha gave us no hint as to how we were to prepare rebuttals to its arguments "in final" when the joint stipulation sent to us contained nothing regarding La Mancha's positions on any of these sixteen issues. La Mancha in essence insisted that we furnish written opposition to its discovery motion on four days' notice without even telling us what the grounds for the motion were. Given the total inadequacy of the draft joint stipulation sent to us, I promptly advised La Mancha's counsel that we would be unable to comply with the totally unrealistic deadline she had set for preparation of the joint discovery stipulation [see letter of James L. Seal to Laura J. Barns dated December 5, 1989, appended hereto as Exhibit 6].

17. On December 8, 1989, I received another letter from La Mancha's counsel, Laura Barns. In that letter (appended hereto as Exhibit 7), Ms. Barns sent me what she represented to be "another draft of the stipulation for Irwin's motion to compel." Regarding the inadequacy of the earlier draft sent to me—which set forth numerous discovery "issues" but did not set out Irwin's contentions with respect to said issues—Ms. Barns stated as follows:

"Although the parties have discussed these issues *ad nauseam*, plaintiffs should be award of Irwin's position on each issue, and Irwin is not required

to provide you with its contentions, I have included them in this draft of the stipulation."
[Barns letter dated December 7, 1989 (Exhibit 7)]

18. I have personally reviewed each page of the draft stipulation sent to me by Ms. Barns with her December 7 letter. Except for the fact that the revised stipulation deletes the hearing date on the caption page and notice of hearing (which is shown as "December 18, 1989" in both places, on Exhibit 5 to this declaration), *the joint stipulation sent to me on December 7 was identical to the joint stipulation appended hereto as exhibit 5 which I received on December 4.* In other words, notwithstanding Ms. Barn's representations to the contrary in her December 7 letter (Exhibit 7), La Mancha and Irwin have still not furnished us with their contentions with respect to any of the discovery issues they wish to have the court address. La Mancha thus continues to insist that we prepare an opposition to its discovery motion prior to the time we have had an opportunity to see any of the grounds La Mancha intends to advance to the court in support of its motion. Not knowing the particulars of La Mancha's and Irwin's contentions with respect to each of these discovery issues, we remain unable to prepare our portion of the joint stipulation to rebut those contentions in a manner to help the court focus on the specific discovery issues which the court must resolve for the parties.

If called as a witness in these proceedings, I could and would testify competently to the foregoing.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on this 11th day of December, 1989, at Beverly Hills, California.

/s/ James L. Seal
JAMES L. SEAL

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

—
No. 83-2594 WPG
—

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

PLAINTIFFS' EVIDENTIARY OBJECTIONS TO
"DECLARATION OF KENNETH F. IRWIN"

Date: December 18, 1989

Time: 10:00 a.m.

Plaintiffs hereby submit the following evidentiary objections to the "Declaration of Kenneth F. Irwin" dated November 7, 1989) (hereinafter "Irwin Decl."):

Irwin Decl. ¶3—"I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterdefendant movie studios. I believe further that larger chains, in particular, were reluctant to make a substantial investment in video technology absent a license from the movie studios."

OBJECTION: This is impermissible speculation not based upon the personal knowledge of the declarant. There is no evidence to establish a foundation to show that the witness has personal knowledge of the reasons hotels did or did not invest in in-room video systems or video technology. Declarant Irwin's "be-

liefs" are irrelevant. Rule 602, Federal Rules of Evidence.

* * *

Irwin Decl. ¶6—"We have been precluded from expanding our in-room video rental program to other hotels as a direct result of Counterdefendants' intimidation, threats of litigation, and refusal to license."

OBJECTION: This is impermissible speculation. Declarant Irwin is speculating as to why other hotels did not implement in-room video rental programs, and there is no evidence adduced to establish a foundation to show that the declarant has personal knowledge of this matter. Rule 602, Federal Rules of Evidence.

* * *

Irwin Decl. ¶7—"Some hotel [sic] are reluctant to provide stand alone video viewing systems in addition to a cable system."

OBJECTION: This is impermissible speculation. Declarant Irwin is speculating as to why other hotels did not implement stand alone video viewing systems, and there is no evidence adduced to establish a foundation to show that the declarant has personal knowledge of this matter. Rule 602, Federal Rules of Evidence.

* * *

Irwin Decl. ¶7—"Some of the opportunities that were available to us for the development of an in-room video market several years ago, therefore, have now been lost as a result of Counterdefendants' activities. . ."

OBJECTION: This is impermissible speculation. Defendant Irwin is speculating as to the reasons why opportunities, if any, were lost, and there is no evidence adduced to establish a foundation to show that the declarant has personal knowledge of this matter. Rule 602, Federal Rules of Evidence.

JA-618

Dated Dec. 11, 1989 ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
STACEY M. BYRNES

By Stephen A. Kroft
Stephen A. Kroft
Attorneys for Plaintiffs and
Counterdefendants

[Certificate of Service omitted in this printing]

JA-619

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
CIVIL MINUTES—GENERAL

CV83-2594-WPG

December 18, 1989

Title COLUMBIA PICTURES CO et al v. PROFESSIONAL
REAL ESTATE INVESTORS, et al

PRESENT:

HON. WILLIAM P. GRAY, JUDGE
S. Pfeifer, Deputy Clerk
Candee Marsh, Court Reporter

ATTORNEYS PRESENT FOR PLAINTIFFS:

Stephen A. Kroft
James L. Seal

ATTORNEYS PRESENT FOR DEFENDANTS:

Jeffrey King

PROCEEDINGS: PLAINTIFF'S MOTION FOR S/J as to 1st,
2nd, 3d cntreclaims and for dismissal of
remaining pendent state claims

Court hears argument. Counsel may file short supple-
mental briefs within 20 days, with reply within 20 days
and the court to consider the matter submitted and rule
within ten days.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
HONORABLE WILLIAM P. GRAY, JUDGE PRESIDING

CV-83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,
v.
PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

CERTIFIED
COPY

TRANSCRIPTS OF PROCEEDINGS
PASADENA, CALIFORNIA
DECEMBER 18, 1989

CANDEE MARSH
OFFICIAL COURT REPORTER
432 U.S. COURTHOUSE
312 NORTH SPRING STREET
LOS ANGELES, CA. 90012
(213) 625-2881

APPEARANCES:

FOR THE PLAINTIFF:

ROSENFELD, MEYER & SUSMAN
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FOR THE DEFENDANT:

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WASHINGTON, D.C. 2007
(202) 342-8510

INDEX

HEARING:

1. PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT AS TO FIRST, SECOND, THIRD COUNTERCLAIMS AND FOR DISMISSAL OF REMAINING PENDENT STATE CLAIMS.

**LOS ANGELES, CALIFORNIA; MONDAY, DECEMBER
18, 1989**

(MORNING SESSION)

THE CLERK: ITEM NUMBER FOUR, CIVIL 83-2594, COLUMBIA PICTURES COMPANY, ET AL. VERSUS PROFESSIONAL REAL ESTATE INVESTORS.

COUNSEL, YOUR APPEARANCES, PLEASE.

MR. KING: GOOD MORNING, YOUR HONOR. MY NAME IS JEFFREY KING. I'M HERE FOR THE COUNTER-PLAINTIFF'S PROFESSIONAL REAL ESTATE INVESTORS, INC. AND OTHERS.

MR. KROFT: GOOD MORNING, YOUR HONOR. STEPHEN KROFT AND JAMES SEAL FROM ROSENFELD, MEYER & SUSMAN FOR THE PLAINTIFFS.

THE COURT: ALL RIGHT. IT'S YOUR MOTION; ISN'T IT?

MR. KROFT: NO, YOUR HONOR. IT'S THE COUNTER-DEFENDANT'S MOTION.

THE COURT: OH, YES. WELL, LET'S SEE.

I'M GOING TO HAVE TO REFRESH MY RECOLLECTION AS TO THE INTERROGATORY SITUATION. THIS IS COLUMBIA PICTURES' MOTION FOR SUMMARY JUDGMENT; IS THAT RIGHT, MR. KROFT?

MR. KROFT: YES, YOUR HONOR.

THE COURT: THAT'S YOU?

MR. KROFT: THAT'S ME, YOUR HONOR.

THE COURT: ALL RIGHT. LET ME TELL YOU WHAT I THINK ABOUT IT.

THE FIRST QUESTION IS WHETHER THIS ACTION WAS A SHAM AS A MATTER OF LAW. I DO NOT—I'M CONVINCED THAT IT WAS NOT A SHAM.

I SAID IN THE EARLIER PROCEEDINGS THAT THIS IS A VERY CLOSE CASE. MY OWN NOTES THAT I MADE BEFORE THE HEARING OF MARCH 24TH, 1986, ARE THAT I HAVE GRAVE DOUBT THAT THE DEFENDANTS WOULD BE ABLE TO SHOW BAD FAITH. THE CIRCUIT COURT OF APPEALS HAD TROUBLE WITH THIS CASE TOO.

AND I'M CONVINCED THAT AS A MATTER OF LAW, IT WAS NOT A SHAM. AND WHETHER THE PLAINTIFFS THOUGHT THEY COULD RECOVER, I THINK IS BESIDE THE POINT. THIS IS A MATTER OF LAW.

THEREFORE, I THINK THAT NOERR-PENNINGTON APPLIES. AND THEREFORE, AS I SAY, I'M DISPOSED TO GRANT A MOTION FOR SUMMARY JUDGMENT TO DISMISS COUNTS ONE, TWO, AND THREE, I THINK IT IS, OF THE COUNTERCLAIM.

THE DEFENDANTS CLAIM DAMAGES BECAUSE COLUMBIA PICTURES OR THE PLAINTIFF WOULD NOT LICENSE THEM, AS I UNDERSTAND IT, TO LEASE THEIR VCR'S TO THE PEOPLE THAT ARE GUESTS IN THEIR HOTELS.

WELL, I THINK THERE ARE TWO ANSWERS TO THAT. IN THE FIRST PLACE, WE NOW KNOW THEY DIDN'T NEED A LICENSE.

SECONDLY, IF THE PLAINTIFFS THOUGHT THAT THEY DID NEED A LICENSE AND WERE DISPOSED NOT TO ALLOW THOSE LEASES TO PEOPLE TO SHOW THESE THINGS IN THEIR HOTEL ROOMS WITHOUT PAYING A ROYALTY, I CAN WELL UNDERSTAND HOW THEY WOULDN'T DO IT UNDER NOERR. I CAN WELL UNDERSTAND HOW THEY WOULD NOT BE DISPOSED TO GRANT TO THE DEFENDANT A LICENSE.

AND AS FAR AS THEIR THREATENING TO SUE OTHER HOTEL OWNERS THAT DID LEASE THOSE VCR'S FOR USE IN THE HOTEL ROOMS, IF THEY HAD A RIGHT TO

SUE, THEY HAD A RIGHT TO THREATEN TO SUE. I THINK NOERR AGAINST PENNINGTON COVERS THAT ALSO.

I THINK THAT THE DEFENDANTS SHOULD HAVE BEEN SATISFIED WITH THE VICTORY THAT THEY HAD RATHER THAN TRYING TO PREVAIL UNDER THEIR CROSS-COMPLAINT, WHICH I DO NOT BELIEVE TO BE MERITORIOUS.

AND THEREFORE, I'M DISPOSED TO DISMISS THE FEDERAL ACTIONS AND DISMISS THE PENDENT ACTIONS BECAUSE THE FEDERAL ACTIONS ARE GONE.

ALL RIGHT. I THINK THE DEFENDANTS ARE UP.

MR. KING: YOUR HONOR, THE NINTH CIRCUIT IN CLIPPER EXXPRESS SAID THAT A SHAM IS A FACTUAL ISSUE, NOT A MATTER OF LAW ISSUE. IT—

THE COURT: IT DID? IN WHAT CASE?

MR. KING: CLIPPER EXXPRESS. IT'S AT 690 F2ND 1240. I BELIEVE IT'S AT PAGE 1253, BUT I'M NOT SURE. I'D HAVE TO LOOK.

THE COURT: WELL, GIVE ME THE VOLUME—GIVE ME THE CITATION AGAIN.

MR. KING: 690 F2ND.

THE COURT: 790?

MR. KING: 690, YOUR HONOR.

THE COURT: 690.

MR. KING: F2ND 1240, NINTH CIRCUIT, 1982. AND I BELIEVE IT'S AT PAGE 1253.

THE COURT: I'M SURPRISED AT THAT. THE STUDY THAT I MADE INDICATES THAT IT'S A QUESTION OF LAW.

I'LL INVITE THE PLAINTIFFS TO RESPOND TO THAT. ALL RIGHT. GO AHEAD.

MR. KING: IT'S AT PAGE 1253. IT SAYS "WHETHER SOMETHING IS A GENUINE EFFORT TO INFLUENCE GOVERNMENTAL ACTION"—

THE COURT: ONCE MORE. ONCE MORE. I DIDN'T HEAR YOU.

MR. KING: I'M SORRY. IT'S AT PAGE 1253, YOUR HONOR, CLIPPER EXXPRESS.

IT STATES "WHETHER SOMETHING IS A GENUINE EFFORT TO INFLUENCE GOVERNMENTAL ACTION OR MERE SHAM IS A QUESTION OF FACT."

I WOULD LIKE TO SUGGEST THAT THERE ARE FACTS HERE TO BE DEVELOPED. AND THERE ARE FACTS HERE, BECAUSE I THINK WHAT WE'RE GETTING CONFUSED WITH IS WHETHER THERE IS AN IMPROPER ANTI-TRUST INTENT OR WHETHER THEY HAD KNOWLEDGE.

WE DO NOT CONTEND THAT—

THE COURT: WHETHER THEY HAD KNOWLEDGE OF WHAT?

MR. KING: KNOWLEDGE THAT THEIR CLAIMS ARE BASELESS.

WE HAVE INFORMATION THAT THEY MAY HAVE BELIEVED THAT TO BE SO.

IN ANOTHER CASE, WHICH INVOLVED THE SAME COUNSEL AND LAW FIRM, COLUMBIA PICTURES VERSUS AVECO, THEY CLAIMED THE HOTEL WAS A PRIVATE PLACE AND ADMITTED IT TO BE SO.

CERTAINLY, IT'S AN INCONSISTENCY WORTH EXPLORING.

SECONDLY, DURING THE COPYRIGHT ACT LEGISLATIVE HISTORY, WE SEE CONTINUAL REFERENCES TO THE CONCEPT OF PRIVATE LODGING AREAS OF OUR HOTEL.

DEFENDANTS ARGUE THAT DOESN'T APPLY TO THEIR CLAIMS, BECAUSE IT'S A DIFFERENT SECTION.

BUT, IN FACT, THE ACT NOWHERE TALKS ABOUT HOTEL ROOMS AS BEING ANYTHING BUT PRIVATE. IN FACT—

THE COURT: WELL, THIS WAS WHEN THEY WERE TRYING TO GET CONGRESS TO CHANGE THE LAW; WASN'T IT?

MR. KING: THIS IS WHEN THEY WERE—THIS IS DURING THE LEGISLATIVE HISTORY OF BOTH THE INITIAL ACT, WHICH IS WHAT WAS SUED UNDER THE 1976 ACT, AND ALSO UNDER SUBSEQUENT ACTIVITIES IN, I BELIEVE THE—

THE COURT: WELL, I CAN—

MR. KING:—1980'S.

THE COURT: I CAN UNDERSTAND HOW THEY WOULD WANT CONGRESS TO CHANGE THE LAW TO CLARIFY WHAT THEY BELIEVED WAS THEIR RIGHT ANYWAY.

MR. KING: WHAT MIGHT HAVE HAPPENED, YOUR HONOR, IS THAT THEIR—AS YOU PROBABLY WELL KNOW FROM OUR PRIOR BRIEFINGS IN THIS CASE, THERE ARE BASICALLY THREE WAYS TO HAVE A PUBLIC PERFORMANCE.

ONE IS A PUBLIC PLACE. AND IF YOU USE A PUBLIC PLACE, IT DOESN'T MATTER HOW YOU GET IT THERE. WHETHER YOU TRANSMIT IT, SHOW IT ON A TELEVISION SCREEN, OR A MOVIE THEATER, IT'S A PUBLIC PERFORMANCE.

THE COURT: YES.

MR. KING: THE SECOND IS A PUBLIC AUDIENCE, AND THIRD IS THIS TRANSMISSION CONCEPT.

THE COURT: NOW, WAIT A MINUTE. WHAT'S THE DIFFERENCE BETWEEN A PUBLIC PERFORMANCE AND A PUBLIC AUDIENCE?

MR. KING: A PUBLIC PLACE IS THAT IT'S A PUBLIC—I BELIEVE AS THE LAW WILL SHOW YOU, IS THAT IT'S A PUBLIC PERFORMANCE WHETHER THERE IS ONE PERSON THERE OR A HUNDRED PERSONS THERE.

A PUBLIC AUDIENCE CAN BE DONE IN A PUBLIC—PRIVATE PLACE—

THE COURT: OH.

MR. KING:—SUCH AS YOUR HOME BEING OPENED UP TO WATCH TELEVISION.

THE COURT: OH, I SEE. ALL RIGHT.

MR. KING: AND THE THIRD ONE IS THIS TRANSMISSION CONCEPT, WHICH IS WHERE WE FIND THE EXCEPTION TO THE TRANSMISSION.

THE CONGRESS AT THAT POINT NOTED THAT WHEN YOU TRANSMIT SOMETHING TO A "PRIVATE LODGING"—WAS THEIR TERM—OF A HOTEL ROOM, WE ARE NOT GOING TO COUNT THAT AS A VIOLATION OF THE LAW. WE ARE GOING TO ACCEPT IT.

AND IT'S NOT THAT TRANSMISSION WE'RE MEANING.

IF, IN FACT, A HOTEL WAS A PUBLIC PLACE, THAT STATUTORY EXEMPTION WOULD BE MEANINGLESS, BECAUSE YOU WEREN'T CATCHING THEM UNDER THEIR TRANSMISSION CONCEPT. YOU WERE CATCHING THEM UNDER THE PUBLIC PLACE CONCEPT.

THE LAW CONSISTENTLY CAN BE INTERPRETED ONLY TO MEAN—DEFENDANTS—COUNTER-DEFENDANTS—HAD TO KNOW GIVEN THE LEGISLATIVE HISTORY AND THE EXTENSIVE EFFORTS THEY MADE TO INFLUENCE HOW THAT LAW WAS WRITTEN, THAT A HOTEL ROOM WAS A PRIVATE PLACE.

IT'S CALLED A PRIVATE LODGING IN THE LAW. IT'S CALLED A PRIVATE LODGING AND A PRIVATE PLACE THROUGHOUT.

SO WE KNOW THEY ADMIT IT IN ANOTHER CASE—THE AVECO CASE.

WE KNOW THAT THE LAW TELLS YOU TO TAKE PRIVATE LODGING, AND THAT THEY PARTICIPATED IN THAT LAW'S DEVELOPMENT AND, IN FACT, DEPOSED PART OF IT—THAT LAWSUIT WHERE THAT VERY REFERENCE IS MADE.

THAT GIVES US ENOUGH AT LEAST TO WANT TO EXPLORE THE ISSUE AND YET WE'VE HAD NO EXPLORATION OF IT, BECAUSE WE HAVE BEEN ABSOLUTELY STONEWALLED IN DISCOVERY.

WE HAVE NOT GOTTEN ANY OF THE TRADE ASSOCIATION DOCUMENTS. WE HAVE NOT GOTTEN ANY COMMUNICATION BETWEEN THE DEFENDANTS.

WE HAVE NOT GOTTEN COMMUNICATION WITH THE LICENSE EXCEPT FOR A FEW WITH R.C.A. WE HAVE NOT SEEN ANY OTHER SUITS OR THREATS OF SUITS.

THE COURT: WELL, WHAT DO YOU EXPECT TO GAIN BY THIS COUNTER-CLAIM?

MR. KING: YOUR HONOR, MY CLIENT IN HIS AFFIDAVIT INDICATED THAT HE ATTEMPTED TO MARKET THE SYSTEM TO OTHER HOTELS—

THE COURT: YES.

MR. KING:—BECAUSE HE THOUGHT IT WAS A SYSTEM WHICH WAS COMPETITIVE.

THE COURT: YES.

MR. KING: HE ATTEMPTED TO GET INVOLVED IN THE MARKET PLACE. IT WAS A METHOD OF DELIVERY OF MOVIES AS WELL AS OTHER INFORMATION THAT COULD BE ON TAPE OR DISC.

HE WAS EVENTUALLY STOPPED. PEOPLE WERE SAYING, "YOU'RE SUED. WE'RE AFRAID WE'LL GET SUED." AND IT, IN FACT, STOPPED THE DEVELOPMENT OF THIS MARKET AND STOPPED THE DEVELOPMENT OF BUSINESS.

THE COURT: AND SO IF THE PLAINTIFFS KNEW THAT THEY DIDN'T HAVE ANY RIGHT TO STOP THIS AND THREATENED TO SUE, WHY THAT WOULD BE AN ANTI-TRUST VIOLATION?

MR. KING: IT WOULD BE AN ANTI-TRUST VIOLATION IN THE FACT THAT THIS CIRCUIT IN RICKARDS VERSUS CANINE EYE SIGHT—IF IT'S AN UNPATENTED CLAIM,—

THE COURT: YES. BUT IF THEY THOUGHT THEY HAD A VALID RIGHT TO PREVENT THE HOTEL OWNERS FROM DOING WHAT THEY HAVE DONE, THEY THEY HAVE A RIGHT TO THREATEN TO SUE UNDER NOERR AGAINST PENNINGTON.

MR. KING: I WOULD NOT DISAGREE WITH THAT WHERE IT BECOMES A PRIOR ISSUE OF FACT.

DID THEY HAVE A VALID CLAIM? DID THEY BELIEVE THEY HAD A VALID CLAIM?

THE COURT: YES.

MR. KING: AND BASED UPON THE INFORMATION WE HAVE WHERE THEY'VE ADMITTED IN OTHER CASES THAT HOTELS ARE PRIVATE, VERSUS WHAT THEIR CLAIM WAS IN OUR LAWSUIT, WHICH WAS THAT HOTEL ROOMS WERE PUBLIC, AND BASED UPON LEGISLATIVE HISTORY, WE CERTAINLY HAVE A RIGHT TO EXPLORE THAT ISSUE, AND NOT BE THROWN OUT JUST BEFORE WE HAVE HAD THAT OPPORTUNITY FOR DISCOVERY.

THAT'S ALL WE SEEK.

THE COURT: WELL, I'M GOING TO HAVE TO STUDY THE LAW AGAIN, I GUESS.

WHAT ABOUT THAT, MR. KROFT? IS IT A SUBJECTIVE MATTER OR IS IT A MATTER OF LAW, WHETHER OR NOT YOU HAVE A CLAIM THAT YOU CAN BELIEVE TO BE VALID?

MR. KROFT: YOUR HONOR, IN THIS CIRCUIT, I BELIEVE, IT IS AN OBJECT TEST. IT WILL BE FOUND BY THE NINTH CIRCUIT TO BE AN OBJECTIVE TEST.

THE COURT: WILL BE?

MR. KROFT: YES, YOUR HONOR.

THE COURT: WHAT ABOUT THIS CASE THAT—

MR. KROFT: CLIPPER EXXPRESS?

THE COURT: CLIPPER EXXPRESS.

MR. KROFT: CLIPPER EXXPRESS IS NOT DISPOSITIVE, YOUR HONOR.

THERE IS A CASE AND I'D LIKE TO GIVE A COPY OF IT TO THE COURT AND TO COUNSEL CALLED COKE-COLA COMPANY VERSUS OVERLAND, INC.

THE COURT: IT'S NOT IN YOUR BRIEF?

MR. KROFT: I APOLOGIZE TO THE COURT. WE DID NOT CITE THIS CASE IN OUR BRIEF. I NOTICED IT HAVING BEEN CITED IN ONE OF THE CASES RELIED UPON BY THE DEFENDANTS.

THE COURT WILL NOT THAT AT PAGE 1257 OF THE COKE-COLA CASE, THE NINTH CIRCUIT ADDRESSES THE QUESTION THAT WAS THE FOCUS OF THE SEVENTH AND THE FIFTH CIRCUIT CASES UPON WHICH THE DEFENDANT RELIES.

AT PAGE 1257, YOUR HONOR, IN FOOTNOTE 17, THE NINTH CIRCUIT EXPRESSES GREAT SCEPTICISM THAT A SUCCESSFUL PRIOR SUIT CAN EVER BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE COURT: WHERE ARE WE, PLEASE? ON 12—

MR. KROFT: WE'RE ON PAGE 1257.

THE COURT: YES, I'M THERE.

MR. KROFT: FOOTNOTE 17.

THE COURT: OH, YES.

MR. KROFT: NOW, THAT'S IMPORTANT, YOUR HONOR, BECAUSE UNDER THE SUBJECTIVE TEST THAT IS ADVANCED BY COUNSEL, EVEN A SUCCESSFUL PRIOR LAWSUIT COULD BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST LITIGATION.

THAT'S WHAT THE FIFTH CIRCUIT SPECIFICALLY HELD IN THE BURLINGTON CASE. AND IT'S ALSO WHAT THE SEVENTH CIRCUIT HELD IN THE GRIP-PAK CASE.

BUT THE NINTH CIRCUIT SAYS, WE WON'T ALLOW THAT—IN THIS FOOTNOTE 17.

THE COURT: WELL, WAIT A MINUTE. THERE IS NO CASE SUPPORTING THE PROPOSITION THAT THE BRINGING OF MERITORIOUS SUITS CAN CONSTITUTE SHAM SUITS.

MR. KROFT: YES, YOUR HONOR.

THE COURT: AND YOUR'S WAS NOT A MERITORIOUS SUIT.

MR. KROFT: YOUR HONOR, OUR'S WAS OBJECTIVELY MERITORIOUS IN THE SENSE THAT IT RAISED VERY CLOSE ISSUES—

THE COURT: I SEE.

MR. KROFT:—OF FIRST IMPRESSION.

THE COURT: I SEE.

MR. KROFT: AND IF—

THE COURT: YOU DON'T HAVE TO WIN IN ORDER TO HAVE A MERITORIOUS SUIT?

MR. KROFT: CORRECT, YOUR HONOR, IN OUR JUDGMENT.

IF YOU ACCEPT THE PROPOSITION THAT DEFENDANT ADVANCES HERE, THAT THE TEST IS SUBJECTIVE, THEN THE COURT WILL HAVE TO BE ACCEPTING THE PROPOSITION THAT EVEN A WINNING PRIOR LAWSUIT, IF BROUGHT FOR BAD MOTIVES, WOULD BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE NINTH CIRCUIT TELLS US IN THE COKE-COLA CASE WE ARE NOT TO ALLOW THAT.

THE COURT: WELL—

MR. KROFT: AND THE REASON FOR THAT, YOUR HONOR, AGAIN IS THE FIRST AMENDMENT VALUES THAT THE WHOLE NOERR-PENNINGTON DOCUMENT IS BASED UPON.

THE COURT: WELL, THEY SAID THAT WE DON'T THINK THAT BRINGING A MERITORIOUS SUIT CAN BE A SHAM.

MR. KROFT: YES, YOUR HONOR. IN THAT CASE I THINK—

THE COURT: DID THEY PREVAIL IN THAT MERITORIOUS SUIT?

MR. KROFT: YES, YOUR HONOR.

THE COURT: WELL, YOU SEE—DOESN'T THAT MAKE A DIFFERENCE?

MR. KROFT: IT MAY BE—

THE COURT: SUPPOSE YOU BRING AN UNMERITORIOUS SUIT FOR NOT THINKING THAT IT WAS A VALID SUIT? THAT'S THE ISSUE HERE; ISN'T IT?

MR. KROFT: YOUR HONOR, THAT'S THE—THAT IS WHAT DEFENDANTS ARE TRYING TO MAKE THE ISSUE.

THE COURT: YES. YES.

MR. KROFT: AND I WOULD ALSO POINT OUT TO THE COURT—

THE COURT: WELL, BUT DOES COKE-COLA DISPOSE OF THAT?

MR. KROFT: NO. COKE-COLA DOES NOT DISPOSE OF IT.

BUT WHAT—LET ME TRY AGAIN, YOUR HONOR.

UNDER THE SUBJECTIVE TEST IN THE OTHER CIRCUITS—THE FIFTH CIRCUIT AND THE SEVENTH CIRCUIT—A WINNING LAWSUIT CAN BE THE BASIS FOR AN ANTI-TRUST—SUBSEQUENT ANTI-TRUST CLAIM IF YOU BROUGHT IT FOR THE WRONG REASONS.

THE NINTH CIRCUIT SAYS, SO TO SPEAK AND NOT THAT EXTREME, A WINNING LAWSUIT—

THE COURT: YES.

MR. KROFT:—YOU CAN BE THE BASIS FOR AN ANTI-TRUST CLAIM.

THE COURT: THE NINTH CIRCUIT TURNED ITS BACK ON THAT.

MR. KROFT: THAT'S CORRECT.

THE COURT: BUT—

MR. KROFT: THE FIFTH CIRCUIT, BY THE WAY, WAS A VERY SHARPLY DIVIDED PANEL, AND THE MAJORITY DID CONFESS THAT WE WERE NOT TO ALLOW A WINNING LAWSUIT TO BE THE BASIS OF A SUBSEQUENT ANTI-TRUST CLAIM ON THE SUBJECTIVE BASIS.

THEN WE HAVE TO CONFESS THAT IT WOULD MAKE SENSE TO DRAW A LINE NOT JUST OF WHETHER YOU WON OR LOST, BUT WHETHER YOU HAD AN OBJECTIVELY MERITORIOUS CLAIM, WHICH, OF COURSE, IS

EXACTLY WHAT THE NINTH CIRCUIT HAS DONE IN THE RULE 11 CONTEST.

THE NINTH CIRCUIT HAS SAID UNDER RULE 11, IF YOU HAVE AN OBJECTIVELY MERITORIOUS CLAIM THAT IS BROUGHT, REASONABLY BASED ON FACTS AND THE LAW, IT CANNOT BE BROUGHT FOR IMPROPER PURPOSE AS A MATTER OF LAW.

THE COURT: WELL, YOUR ADVERSARY SAYS THAT THE CLIPPER CASE WAS DIFFERENT.

MR. KROFT: THE CLIPPER CASE WAS DECIDED BEFORE THE COKE-COLA CASE.

AND THE CLIPPER CASE DID NOT HAVE THE ISSUE PRESENTED SQUARELY TO IT, YOUR HONOR. I THINK IF YOU READ THE CLIPPER CASE, YOU WILL CONCLUDE THAT WHATEVER THE NINTH CIRCUIT MAY HAVE SAID THERE, THE UNDERLYING CLAIMS, IN FACT, WERE OBJECTIVELY SHAM. THEY HAD NO REASONABLE BASIS.

THE NINTH CIRCUIT IN THE CLIPPER EXXPRESS CASE WAS NOT ASKED TO DETERMINE WHETHER AN OBJECTIVELY MERITORIOUS LAWSUIT, SUCH AT THIS COPYRIGHT CASE, COULD EVER BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE COURT: WELL, ALL RIGHT. I'LL TAKE IT UNDER SUBMISSION.

I'M TROUBLED BY THIS. IN HARKING BACK, I'M CONVINCED THAT THIS WAS A CLOSE ISSUE. I KNOW THE NINTH CIRCUIT—DIDN'T THE NINTH CIRCUIT HAVE IT ARGUED TWICE?

MR. KROFT: WE ARGUED IT TO THE JUDGE OF THE NINTH CIRCUIT, YOUR HONOR, AND IT TOOK HIM TWO YEARS TO DECIDE IT.

THE COURT: I KNOW THE CIRCUIT HAD TROUBLE WITH IT JUST AS I HAD TROUBLE WITH IT.

AND I THINK IT WOULD BE MOST UNFORTUNATE UNDER NOERR AGAINST PENNINGTON TO SUBJECT THE PLAINTIFFS TO AN ANTI-TRUST LITIGATION UNDER THESE CIRCUMSTANCES.

BUT I'M OBLIGED TO ADHERE TO THE LAW.

I'LL TAKE IT UNDER SUBMISSION AND SEE WHETHER OR NOT IT'S A FACTUAL MATTER AS TO WHETHER THE PLAINTIFF WAS IN GOOD FAITH IN BRINGING THIS ACTION, OR WHETHER THEY KNEW THAT THEY DIDN'T HAVE A CHANCE AND WERE SIMPLY TRYING TO HARASS THE DEFENDANT.

MR. KROFT: YOUR HONOR, MAY I MAKE A COUPLE OF COMMENTS TO THE COURT FOR ITS CONSIDERATION WHEN HE DOES TAKE THIS CASE UNDER SUBMISSION?

I'D LIKE TO BRING THE COURT'S ATTENTION TO ONE MORE CASE CALLED ADVISOR, INC. VERSUS PACIFIC TELEPHONE. FOUND 640 F2ND 1107.

THE COURT: WHAT CIRCUIT?

MR. KROFT: THAT'S THE NINTH CIRCUIT, YOUR HONOR.

AND THE COURT WILL FIND THERE THAT—I THINK THE COURT—AGAIN, WITHOUT HAVING TO FACE THE ISSUES AS THEY'RE SQUARELY BEFORE THE COURT—NEVERTHELESS, I BELIEVE APPLIED AN OBJECTIVE TEST FINDING THAT THE UNDERLYING CASES HAD OBJECTIVE MERIT, AND THAT WAS ALL THE NINTH CIRCUIT NEEDED TO KNOW.

ON THE ISSUE—IF THE COURT WERE TO CONCLUDE THIS QUESTION WAS SUBJECTIVE, I WOULD LIKE TO POINT OUT TO THE COURT THAT THERE IS ABSOLUTELY NO EVIDENCE IN THOSE RECORDS.

THE COURT: WELL, THAT'S WHAT HE WANTS TO FIND. HE WANTS TO SEE BY DISCOVERY IF THEY CAN

COME UP WITH A RATIONALE UPON WHICH THEY CAN HANG THEIR CONTENTION THAT YOU KNEW THAT YOU DIDN'T HAVE A CHANCE.

ISN'T THAT RIGHT?

MR. KING: YOUR HONOR—

MR. KROFT: YES, YOUR HONOR. AND I BELIEVE THERE IS EVIDENCE IN THE RECORD.

THE COURT: WELL, I'M SURE YOU DO.

(LAUGHTER.)

MR. KROFT: I SUBMITTED TO THE COURT IN CONNECTION WITH THIS ISSUE THAT ITS AN IMPOSSIBILITY FOR ANYBODY EVER TO KNOW IN ADVANCE THAT AN OBJECTIVELY MERITORIOUS CLAIM RAISING VERY CLOSE ISSUES OF FIRST IMPRESSION WAS A LOSER.

AND THAT'S WHAT THE DEFENDANTS ARE ASKING THIS COURT TO CONCLUDE.

THE FACT THAT THIS CASE WAS VERY CLOSE PRECLUDES ANY POSSIBILITY OF THE PLAINTIFFS HAVING KNOWN IN ADVANCE THAT THEY HAD AN UNMERITORIOUS CLAIM.

THE COURT: WELL, I'M INCLINED TO THINK SO TOO. THE PLAINTIFF—THE DEFENDANT COUNTERCLAIMANTS ARE GOING TO HAVE A SUBSTANTIAL UPHILL BATTLE.

BUT I BELIEVE THAT I MUST FIND OUT WHETHER OR NOT I'M OBLIGED TO GIVE THEM A CHANCE.

MR. KING: WOULD YOU LIKE US TO FILE SUPPLEMENTS BASED ON THE ISSUE OF FACT VERSUS—

THE COURT: I WOULD APPRECIATE THAT.

IS THAT ALL RIGHT, MR. KROFT?

MR. KROFT: YES, SIR.

THE COURT: ALL RIGHT. I'LL TAKE IT UNDER SUBMISSION. THE PLAINTIFFS WILL FILE FIRST.

TWENTY DAYS ALL RIGHT?

MR. KROFT? DO YOU MEAN MR. KING?

THE COURT: THE DEFENDANT. I'M SORRY.

MR. KING WILL FILE FIRST.

MR. KING: YOU WANT US TO FILE BEFORE THERE MOTION?

THE COURT: YES.

MR. KING: THEIR MOTION?

THE COURT: YES.

TWENTY, TWENTY AND TEN.

AND MR. KROFT, WILL YOU PROVIDE ME A TRANSCRIPT OF THIS MORNING'S HEARING?

MR. KROFT: YES, YOUR HONOR, I WILL DO SO.

THE COURT: ALL RIGHT, GENTLEMEN.

MR. KROFT: THANK YOU, YOUR HONOR.

MR. KING: THANK YOU, YOUR HONOR.

THE COURT: SUBMITTED.

(PROCEEDINGS ADJOURNED.)

[Certificate of Service omitted in this printing/cb

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
HONORABLE WILLIAM P. GRAY, JUDGE PRESIDING

CV-83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., ET AL.

PLAINTIFFS,

VS.

PROFESSIONAL REAL ESTATE INVESTORS, INC., AND
KENNETH F. IRWIN,

DEFENDANTS.

AND RELATED COUNTERCLAIM

CERTIFIED
COPY

TRANSCRIPT PROCEEDINGS
PASADENA, CALIFORNIA
DECEMBER 18, 1989

CANDEE MARSH
OFFICIAL COURT REPORTER
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APPEARANCES:

FOR THE PLAINTIFF:

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FOR THE DEFENDANT:

COLLIER, SHANNON & SCOTT
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INDEX

HEARING:

1. PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT AS TO FIRST, SECOND, THIRD COUNTERCLAIMS AND FOR DISMISSAL OF REMAINING PENDENT STATE CLAIMS.

[4] LOS ANGELES, CALIFORNIA; MONDAY, DECEMBER
18, 1989

(MORNING SESSION)

THE CLERK: ITEM NUMBER FOUR, CIVIL 83-2594, COLUMBIA PI COMPANY, ET AL. VERSUS PROFESSIONAL REAL ESTATE INVESTORS.

COUNSEL, YOUR APPEARANCES, PLEASE.

MR. KING: GOOD MORNING, YOUR HONOR. MY NAME IS JEFFREY KING. I'M HERE FOR THE COUNTER-PLAINTIFF'S PROFESSIONAL ESTATE INVESTORS, INC. AND OTHERS.

MR. KROFT: GOOD MORNING, YOUR HONOR. STEPHEN KROFT AND SEAL FROM ROSENFELD, MEYER & SUSMAN FOR THE PLAINTIFFS.

THE COURT: ALL RIGHT. IT'S YOUR MOTION; ISN'T IT?

MR. KROFT: NO, YOUR HONOR. IT'S THE COUNTER-DEFENDANT'S MOTION.

THE COURT: OH, YES. WELL, LET'S SEE.

I'M GOING TO HAVE TO REFRESH MY RECOLLECTION AS TO THE INTERROGATORY SITUATION. THIS IS COLUMBIA PICTURES' MOTION FOR SUMMARY JUDGMENT; IS THAT RIGHT, MR. KROFT?

MR. KROFT: YES, YOUR HONOR.

THE COURT: THAT'S YOU?

MR. KROFT: THAT'S ME, YOUR HONOR.

THE COURT: ALL RIGHT. LET ME TELL YOU WHAT I THINK ABOUT IT.

THE FIRST QUESTION IS WHETHER THIS ACTION WAS A SHAM AS A MATTER OF LAW. I DO NOT—I'M CONVINCED THAT IT WAS NOT A [5] SHAM.

I SAID IN THE EARLIER PROCEEDINGS THAT THIS IS A VERY CLOSE CASE. MY OWN NOTES THAT I MADE BEFORE THE HEARING OF MARCH 1986, ARE THAT I HAVE GRAVE DOUBT THAT THE DEFENDANTS WOULD BE ABLE TO SHOW BAD FAITH. THE CIRCUIT COURT OF APPEALS HAD TROUBLE WITH THE CASE TOO.

AND I'M CONVINCED THAT AS A MATTER OF LAW, IT WAS NOT A SHAM. AND WHETHER THE PLAINTIFFS THOUGH THEY COULD RECOVER, I THINK IS BESIDE THE POINT. THIS IS A MATTER OF LAW.

THEREFORE, I THINK THAT NOERR-PENNINGTON APPLIES. AND THEREFORE, AS I SAY, I'M DISPOSED TO GRANT A MOTION FOR SUMMARY JUDGMENT TO DISMISS COUNTS ONE, TWO, AND THREE, I THINK IT IS, OF COUNTERCLAIM.

THE DEFENDANTS CLAIM DAMAGES BECAUSE COLUMBIA PICTURES O PLAINTIFF WOULD NOT LICENSE THEM, AS I UNDERSTAND IT, TO LEASE THE VCR'S TO THE PEOPLE THAT ARE GUESTS IN THEIR HOTELS.

WELL, I THINK THERE ARE TWO ANSWERS TO THAT. IN THE FIRST PLACE, WE NOW KNOW THEY DIDN'T NEED A LICENSE.

SECONDLY, IF THE PLAINTIFFS THOUGHT THAT THEY DID NEED A LICENSE AND WERE DISPOSED NOT TO ALLOW THOSE LEASES TO PEOPLE TO SHOW THESE THINGS IN THEIR HOTEL ROOMS WITHOUT PAYING A ROYALTY CAN WELL UNDERSTAND HOW THEY WOULDN'T DO IT UNDER NOERR. I CAN UNDERSTAND HOW THEY WOULD NOT BE DISPOSED TO GRANT TO THE DEFENDANT LICENSE.

AND AS FAR AS THEIR THREATENING TO SUE OTHER HOTEL OWNERS [6] DID LEASE THOSE VCR'S FOR USE IN THE HOTEL ROOMS, IF THEY HAD A RIGHT TO SUE, THEY HAD A RIGHT TO THREATEN TO SUE. I THINK NOERR AGAIN PENNINGTON COVERS THAT ALSO.

I THINK THAT THE DEFENDANTS SHOULD HAVE BEEN SATISFIED WITH THE VICTORY THAT THEY HAD RATHER THAN TRYING TO PREVAIL UNDER THE CROSS-COMPLAINT, WHICH I DID NOT BELIEVE TO BE MERITORIOUS.

AND THEREFORE, I'M DISPOSED TO DISMISS THE FEDERAL ACTION TO DISMISS THE PENDENT ACTIONS BECAUSE THE FEDERAL ACTIONS ARE GONE.

ALL RIGHT. I THINK THE DEFENDANTS ARE UP.

MR. KING: YOUR HONOR, THE NINTH CIRCUIT IN CLIPPER EXXPRESS SAID THAT A SHAM IS A FACTUAL ISSUE, NOT A MATTER OF LAW ISSUE.

THE COURT: IT DID? IN WHAT CASE?

MR. KING: CLIPPER EXXPRESS. IT'S AT 690 F2ND 1240. I BELIEVE IT'S AT PAGE 1253, BUT I'M NOT SURE. I'D HAVE TO LOOK.

THE COURT: WELL, GIVE ME THE VOLUME—GIVE ME THE CITATION AGAIN.

MR. KING: 690 F2ND.

THE COURT: 790?

MR. KING: 690, YOUR HONOR.

THE COURT: 690.

MR. KING: F2ND 1240, NINTH CIRCUIT, 1982. AND I BELIEVE IT'S AT PAGE 1253.

THE COURT: I'M SURPRISED AT THAT. THE STUDY THAT I MADE INDICATES THAT IT'S A QUESTION OF LAW.

I'LL INVITE THE PLAINTIFFS TO RESPOND TO THAT.

[7] ALL RIGHT. GO AHEAD.

MR. KING: IT'S AT PAGE 1253. IT SAYS "WHETHER SOMETHING GENUINE EFFORT TO INFLUENCE GOVERNMENTAL ACTION"—

THE COURT: ONCE MORE. ONCE MORE. I DIDN'T HEAR YOU.

MR. KING: I'M SORRY. IT'S AT PAGE 1253, OUR HONOR, CLIPPER EXXPRESS.

IT STATES "WHETHER SOMETHING IS A GENUINE EFFORT TO INFLUENCE GOVERNMENTAL ACTION OR MERE SHAM IS A QUESTION OF FACT."

I WOULD LIKE TO SUGGEST THAT THERE ARE FACTS HERE TO BE DEVELOPED. AND THERE ARE FACTS HERE, BECAUSE I THINK WHAT WE'RE GETTING CONFUSED WITH IS WHETHER THERE IS AN IMPROPER ANTI-TRUST OR WHETHER THEY HAD KNOWLEDGE.

WE DO NOT CONTEND THAT—

THE COURT: WHETHER THEY HAD KNOWLEDGE OF WHAT?

MR. KING: KNOWLEDGE THAT THEIR CLAIMS ARE BASELESS.

WE HAVE INFORMATION THAT THEY MAY HAVE BELIEVED THAT TO BE SO.

IN ANOTHER CASE, WHICH INVOLVED THE SAME COUNSEL AND LAW COLUMBIA PICTURES VERSUS AVECO, THEY CLAIMED THE HOTEL WAS A PRIVATE PLACE AND ADMITTED IT TO BE SO.

CERTAINLY, IT'S AN INCONSISTENCY WORTH EXPLORING.

SECONDLY, DURING THE COPYRIGHT ACT LEGISLATIVE HISTORY, CONTINUAL REFERENCES TO THE CONCEPT OF PRIVATE LODGING AREAS OF ONE HOTEL.

DEFENDANTS ARGUE THAT DOESN'T APPLY TO THEIR CLAIMS, BE [8] IT'S A DIFFERENT SECTION.

BUT, IN FACT, THE ACT NOWHERE TALKS ABOUT HOTEL ROOMS AS BEING ANYTHING BUT PRIVATE. IN FACT—

THE COURT: WELL, THIS WAS WHEN THEY WERE TRYING TO GET CONGRESS TO CHANGE THE LAW; WASN'T IT?

MR. KING: THIS IS WHEN THEY WERE—THIS IS DURING THE LEGISLATIVE HISTORY OF BOTH THE INITIAL ACT, WHICH IS WHAT WAS _____ UNDER THE 1976 ACT, AND ALSO UNDER SUBSEQUENT ACTIVITIES IN, I BELIEVE THE—

THE COURT: WELL, I CAN—

MR. KING:—1980'S.

THE COURT: I CAN UNDERSTAND HOW THEY WOULD WANT CONGRESS TO CHANGE THE LAW TO CLARIFY WHAT THEY BELIEVED WAS THEIR RIGHT ANYWAY.

MR. KING: WHAT MIGHT HAVE HAPPENED, YOUR HONOR, IS THAT THEIR—AS YOUR PROBABLY WELL KNOW FROM OUR PRIOR BRIEFINGS IN THIS CASE, THERE ARE BASICALLY THREE WAYS TO HAVE A PUBLIC PERFORMANCE.

ONE IS A PUBLIC PLACE. AND IF YOU USE A PUBLIC PLACE, IT DOESN'T MATTER HOW YOU GET IT THERE. WHETHER YOU TRANSMIT IT, SHOW IT ON A TELEVISION SCREEN, OR A MOVIE THEATER, IT'S A PUBLIC PERFORMANCE.

THE COURT: YES.

MR. KING: THE SECOND IS A PUBLIC AUDIENCE, AND THIRD IS THIS TRANSMISSION CONCEPT.

THE COURT: NOW, WAIT A MINUTE. WHAT'S THE DIFFERENCE BETWEEN A PUBLIC PERFORMANCE AND A PUBLIC AUDIENCE?

[9] MR. KING: A PUBLIC PLACE IS THAT IT'S A PUBLIC—I BELIEVE AS THE LAW WILL SHOW YOU, IS THAT IT'S A PUBLIC PERFORMANCE WHETHER THERE IS ONE PERSON THERE OR A HUNDRED PERSONS THERE.

A PUBLIC AUDIENCE CAN BE DONE IN A PUBLIC—PRIVATE PLACE.

THE COURT: OH.

MR. KING:—SUCH AS YOUR HOME BEING OPENED UP TO WATCH TELEVISION.

THE COURT: OH, I SEE. ALL RIGHT.

MR. KING: AND THE THIRD ONE IS THIS TRANSMISSION CONCEPT, WHICH IS WHERE WE FIND THE EXCEPTION TO THE TRANSMISSION.

THE CONGRESS AT THAT POINT NOTED THAT WHEN YOU TRANSMIT SOMETHING TO A "PRIVATE LODGING"—WAS THEIR TERM—OF A HOTEL WE ARE NOT GOING TO COUNT THAT AS A VIOLATION OF THE LAW. WE ARE TO ACCEPT IT.

AND IT'S NOT THAT TRANSMISSION WE'RE MEANING.

IF, IN FACT, A HOTEL WAS A PUBLIC PLACE, THAT STATUTORY EXEMPTION WOULD BE MEANINGLESS, BECAUSE YOU WEREN'T CATCHING THEM THEIR TRANSMISSION CONCEPT. YOU WERE CATCHING THEM UNDER THE PUB PLACE CONCEPT.

THE LAW CONSISTENTLY CAN BE INTERPRETED ONLY TO MEAN—DEFENDANTS—COUNTER-DEFENDANTS—HAD TO KNOW GIVEN THE LEGISLATIVE HISTORY AND THE EXTENSIVE EFFORTS THEY MADE TO INFLUENCE HOW THAT WAS WRITTEN, THAT A HOTEL ROOM WAS A PRIVATE PLACE.

IT'S CALLED A PRIVATE LODGING IN THE LAW. IT'S CALLED [10] A PRIVATE LODGING AND A PRIVATE PLACE THROUGHOUT.

SO WE KNOW THEY ADMIT IT IN ANOTHER CASE—THE AVECO CASE.

WE KNOW THAT THE LAW TELLS YOU TO TAKE PRIVATE LODGING, THAT THEY PARTICIPATED IN THAT

LAW'S DEVELOPMENT AND, IN FACT, BE PART OF IT—THAT LAWSUIT WHERE THAT VERY REFERENCE IS MADE.

THAT GIVES US ENOUGH AT LEAST TO WANT TO EXPLORE THE ISSUE. YET WE'VE HAD NO EXPLORATION OF IT, BECAUSE WE HAVE BEEN ABSOLUTELY STONE-WALLED IN DISCOVERY.

WE HAVE NOT GOTTEN ANY OF THE TRADE ASSOCIATION DOCUMENTS. WE HAVE NOT GOTTEN ANY COMMUNICATION BETWEEN THE DEFENDANTS.

WE HAVE NOT GOTTEN COMMUNICATION WITH THE LICENSE EXCEPT FEW WITH R.C.A. WE HAVE NOT SEEN ANY OTHER SUITS OR THREATS OF SUITS.

THE COURT: WELL, WHAT DO YOU EXPECT TO GAIN BY THIS COUNTER-CLAIM?

MR. KING: YOUR HONOR, MY CLIENT IN HIS AFFIDAVIT INDICATED THAT HE ATTEMPTED TO MARKET THE SYSTEM TO OTHER HOTELS—

THE COURT: YES.

MR. KING:—BECAUSE HE THOUGHT IT WAS A SYSTEM WHICH WAS COMPETITIVE.

THE COURT: YES.

MR. KING: HE ATTEMPTED TO GET INVOLVED IN THE MARKET PLACE. IT WAS A METHOD OF DELIVERY OF MOVIES AS WELL AS OTHER INFORMATION WHICH COULD BE ON TAPE OR DISC.

[11] HE WAS EVENTUALLY STOPPED. PEOPLE WERE SAYING, "YOU'RE WE'RE AFRAID WE'LL GET SUED." AND IT, IN FACT, STOPPED THE DEVELOPMENT OF THIS MARKET AND STOPPED THE DEVELOPMENT OF BUSINESS.

THE COURT: AND SO IF THE PLAINTIFFS KNEW THAT THEY DIDN'T HAVE ANY RIGHT TO STOP THIS AND

THREATENED TO SUE, WHY THAT WOULD ANTI-TRUST VIOLATION?

MR. KING: IT WOULD BE AN ANTI-TRUST VIOLATION IN THE FACT THAT THIS CIRCUIT IN RICKARDS VERSUS CANINE EYE SIGHT—IF IT'S UNPATENTED CLAIM—

THE COURT: YES. BUT IF THEY THOUGHT THEY HAD A VALID RIGHT TO PREVENT THE HOTEL OWNERS FROM DOING WHAT THEY HAVE DONE, THEN HAVE A RIGHT TO THREATEN TO SUE UNDER NOERR AGAINST PENNINGTON.

MR. KING: I WOULD NOT DISAGREE WITH THAT WHERE IT BECOMES PRIOR ISSUE OF FACT.

DID THEY HAVE A VALID CLAIM? DID THEY BELIEVE THEY HAD A VALID CLAIM?

THE COURT: YES.

MR. KING: AND BASED UPON THE INFORMATION WE HAVE WHERE THEY'VE ADMITTED IN OTHER CASES THAT HOTELS ARE PRIVATE, VERSUS WHETHER THEIR CLAIM WAS IN OUR LAWSUIT, WHICH WAS THAT HOTEL ROOMS WERE PRIVATE AND BASED UPON LEGISLATIVE HISTORY, WE CERTAINLY HAVE A RIGHT TO EXPLORE THAT ISSUE, AND NOT BE THROWN OUT JUST BEFORE WE HAVE HAD OPPORTUNITY FOR DISCOVERY.

THAT'S ALL WE SEEK.

THE COURT: WELL, I'M GOING TO HAVE TO STUDY THE LAW [12] AGAIN, I GUESS.

WHAT ABOUT THAT, MR. KROFT? IS IT A SUBJECTIVE MATTER OR IS IT A MATTER OF LAW, WHETHER OR NOT YOU HAVE A CLAIM THAT YOU CAN BELIEVE TO BE VALID?

MR. KROFT: YOUR HONOR, IN THIS CIRCUIT, I BELIEVE, IT OBJECT TEST. IT WILL BE FOUND BY THE NINTH CIRCUIT TO BE AN OBJECT TEST.

THE COURT: WILL BE?

MR. KROFT: YES, YOUR HONOR.

THE COURT: WHAT ABOUT THIS CASE THAT—

MR. KROFT: CLIPPER EXXPRESS?

THE COURT: CLIPPER EXXPRESS.

MR. KROFT: CLIPPER EXXPRESS IS NOT DISPOSITIVE, YOUR HONOR.

THERE IS A CASE AND I'D LIKE TO GIVE A COPY OF IT TO THE AND TO COUNSEL CALLED COKE-COLA COMPANY VERSUS OVERLAND, INC.

THE COURT: IT'S NOT IN YOUR BRIEF?

MR. KROFT: I APOLOGIZE TO THE COURT. WE DID NOT CITE TO CASE IN OUR BRIEF. I NOTICED IT HAVING BEEN CITED IN ONE OF THE RELIED UPON BY THE DEFENDANTS.

THE COURT WILL NOT THAT AT PAGE 1257 OF THE COKE-COLA CASE, THE NINTH CIRCUIT ADDRESSES THE QUESTION THAT WAS THE FOCUS OF THE SEVENTH AND THE FIFTH CIRCUIT CASES UPON WHICH THE DEFENDANT RELIES.

AT PAGE 1257, YOUR HONOR, IN FOOTNOTE 17, THE NINTH CIRCUIT EXPRESSES GREAT SCEPTICISM THAT A SUCCESSFUL PRIOR SUIT CAN EVER [13] BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE COURT: WHERE ARE WE, PLEASE? ON 12—

MR. KROFT: WE'RE ON PAGE 1257.

THE COURT: YES, I'M THERE.

MR. KROFT: FOOTNOTE 17.

THE COURT: OH, YES.

MR. KROFT: NOW, THAT'S IMPORTANT, YOUR HONOR, BECAUSE UNDER THE SUBJECTIVE TEST THAT IS AD-

VANCED BY COUNSEL, EVEN A SUCCESSFUL PRIOR LAWSUIT COULD BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST LITIGATION.

THAT'S WHAT THE FIFTH CIRCUIT SPECIFICALLY HELD IN THE BURLINGTON CASE. AND IT'S ALSO WHAT THE SEVENTH CIRCUIT HELD IN GRIP-PAK CASE.

BUT THE NINTH CIRCUIT SAYS, WE WON'T ALLOW THAT—IN THIS FOOTNOTE 17.

THE COURT: WELL, WAIT A MINUTE. THERE IS NOT CASE SUPPORTING THE PROPOSITION THAT THE BRINGING OF MERITORIOUS SUITS CAN CONSTITUTE SHAM SUITS.

MR. KROFT: YES, YOUR HONOR.

THE COURT: AND YOUR'S WAS NOT A MERITORIOUS SUIT.

MR. KROFT: YOUR HONOR, OUR'S WAS OBJECTIVELY MERITORIOUS THE SENSE THAT IT RAISED VERY CLOSE ISSUES—

THE COURT: I SEE.

MR. KROFT:—OF FIRST IMPRESSION.

THE COURT: I SEE.

[14] MR. KROFT: AND IF—

THE COURT: YOU DON'T HAVE TO WIN IN ORDER TO HAVE A MERITORIOUS SUIT?

MR. KROFT: CORRECT, YOUR HONOR, IN OUR JUDGMENT.

IF YOU ACCEPT THE PROPOSITION THAT DEFENDANT ADVANCES THAT THE TEST IS SUBJECTIVE, THEN THE COURT WILL HAVE TO BE ACCEPTED. THE PROPOSITION THAT EVEN A WINNING PRIOR LAWSUIT, IF BROUGHT FOR MOTIVES, WOULD BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE NINTH CIRCUIT TELLS US IN THE COKE-COLA CASE WE ARE ALLOW THAT.

THE COURT: WELL—

MR. KROFT: AND THE REASON FOR THAT, YOUR HONOR, AGAIN I FIRST AMENDMENT VALUES THAT THE WHOLE NOERR-PENNINGTON DOCUMENT I BASED UPON.

THE COURT: WELL, THEY SAID THAT WE DON'T THINK THAT BRINGING A MERITORIOUS SUIT CAN BE A SHAM.

MR. KROFT: YES, YOUR HONOR. IN THAT CASE I THINK—

THE COURT: DID THEY PREVAIL IN THAT MERITORIOUS SUIT?

MR. KROFT: YES, YOUR HONOR.

THE COURT: WELL, YOU SEE—DOESN'T THAT MAKE A DIFFERENCE.

MR. KROFT: IT MAY BE—

THE COURT: SUPPOSE YOU BRING AN UNMERITORIOUS SUIT FOR THINKING THAT IT WAS A VALID SUIT? THAT'S THE ISSUE HERE; ISN'T IT.

MR. KROFT: YOUR HONOR, THAT'S THE—THAT IS WHAT DEFENDANTS ARE TRYING TO MAKE THE ISSUE.

THE COURT: YES. YES.

MR. KROFT: AND I WOULD ALSO POINT OUT TO THE COURT—

THE COURT: WELL, BUT DOES COKE-COLA DISPOSE OF THAT?

MR. KROFT: NO. COKE-COLA DOES NOT DISPOSE OF IT.

BUT WHAT—LET ME TRY AGAIN, YOUR HONOR.

UNDER THE SUBJECTIVE TEST IN THE OTHER CIRCUITS—THE FIFTH CIRCUIT AND THE SEVENTH CIRCUIT—A WINNING LAWSUIT CAN BE THE BASIS FOR AN ANTI-TRUST—SUBSEQUENT ANTI-TRUST CLAIM IF YOU BROUGHT IT FOR THE WRONG REASONS.

THE NINTH CIRCUIT SAYS, SO TO SPEAK AND NOT THAT EXTREME WINNING LAWSUIT—

THE COURT: YES.

MR. KROFT:—CAN BE THE BASIS FOR AN ANTI-TRUST CLAIM.

THE COURT: THE NINTH CIRCUIT TURNED ITS BACK ON THAT.

MR. KROFT: THAT'S CORRECT.

THE COURT: BUT—

MR. KROFT: THE FIFTH CIRCUIT, BY THE WAY, WAS A VERY DIVIDED PANEL, AND THE MAJORITY DID CONFESS THAT WE WERE NOT TO A WINNING LAWSUIT TO BE THE BASIS OF A SUBSEQUENT ANTI-TRUST CLAIM SUBJECTIVE BASIS.

THEN WE HAVE TO CONFESS THAT IT WOULD MAKE SENSE TO DRAW A LINE NOT JUST OF WHETHER YOU WON OR LOST, BUT WHETHER YOU HAD AN OBJECTIVELY MERITORIOUS CLAIM, WHICH, OR COURSE, IS EXACTLY WHAT NINTH CIRCUIT HAS DONE IN THE RULE 11 CONTEST.

[16] THE NINTH CIRCUIT HAS SAID UNDER RULE 11, IF YOU HAVE AN OBJECTIVELY MERITORIOUS CLAIM THAT IS BROUGHT, REASONABLY BASED ON FACTS AND THE LAW, IT CANNOT BE BROUGHT FOR IMPROPER PURPOSE AS A MATTER OF LAW.

THE COURT: WELL, YOUR ADVERSARY SAYS THAT THE CLIPPER CASE WAS DIFFERENT.

MR. KROFT: THE CLIPPER CASE WAS DECIDED BEFORE THE COKE-COLA CASE.

AND THE CLIPPER CASE DID NOT HAVE THE ISSUE PRESENTED SQUARELY TO IT, YOUR HONOR. I THINK IF YOU READ THE CLIPPER CASE WILL CONCLUDE THAT WHATEVER THE NINTH CIRCUIT MAY HAVE SAID THERE UNDERLYING CLAIMS, IN FACT, WERE OBJECTIVELY SHAM. THEY HAD NO REASONABLE BASIS.

THE NINTH CIRCUIT IN THE CLIPPER EXXPRESS CASE WAS NOT A TO DETERMINE WHETHER AN OBJECTIVELY MERITORIOUS LAWSUIT, SUCH AT COPYRIGHT CASE, COULD EVER BE THE BASIS FOR A SUBSEQUENT ANTITRUST CLAIM.

THE COURT: WELL, ALL RIGHT. I'LL TAKE IT UNDER SUBMISSION.

I'M TROUBLED BY THIS. IN HARKING BACK, I'M CONVINCED THAT THIS WAS A CLOSE ISSUE. I KNOW THE NINTH CIRCUIT—DIDN'T THE NINTH CIRCUIT HAVE IT ARGUED TWICE?

MR. KROFT: WE ARGUED IT TO THE JUDGE OF THE NINTH CIRCUIT YOUR HONOR, AND IT TOOK HIM TWO YEARS TO DECIDE IT.

THE COURT: I KNOW THE CIRCUIT HAD TROUBLE WITH IT JUST [17] AS I HAD TROUBLE WITH IT.

AND I THINK IT WOULD BE MOST UNFORTUNATE UNDER NOERR AGAIN PENNINGTON TO SUBJECT THE PLAINTIFFS TO ANTI-TRUST LITIGATION UNDER THESE CIRCUMSTANCES.

BUT I'M OBLIGED TO ADHERE TO THE LAW.

I'LL TAKE IT UNDER SUBMISSION AND SEE WHETHER OR NOT IT'S A FACTUAL MATTER AS TO WHETHER THE PLAINTIFF WAS IN GOOD FAITH IN BRINGING THIS ACTION, OR WHETHER THEY KNEW

THAT THEY DID HAVE A CHANCE AND WERE SIMPLY TRYING TO HARASS THE DEFENDANT.

MR. KROFT: YOUR HONOR, MAY I MAKE A COUPLE OF COMMENTS TO THE COURT FOR ITS CONSIDERATION WHEN HE DOES TAKE THIS CASE UNDER SUBMISSION?

I'D LIKE TO BRING THE COURT'S ATTENTION TO ONE MORE CASE CALLED ADVISOR, INC. VERSUS PACIFIC TELEPHONE. FOUND 640 F2ND 11.

THE COURT: WHAT CIRCUIT?

MR. KROFT: THAT'S THE NINTH CIRCUIT, YOUR HONOR.

AND THE COURT WILL FIND THERE THAT—I THINK THE COURT AGAIN, WITHOUT HAVING TO FACE THE ISSUES AS THEY'RE SQUARELY BEFORE THE COURT—NEVERTHELESS, I BELIEVE APPLIED AN OBJECTIVE TEST FINDING THE UNDERLYING CASES HAD OBJECTIVE MERIT, AND THAT WAS ALL THE NINTH CIRCUIT NEEDED TO KNOW.

ON THE ISSUE—IF THE COURT WERE TO CONCLUDE THIS QUESTION WAS SUBJECTIVE, I WOULD LIKE TO POINT OUT TO THE COURT THAT THERE IS ABSOLUTELY NO EVIDENCE IN THOSE RECORDS.

THE COURT: WELL, THAT'S WHAT HE WANTS TO FIND. HE WANTS TO [18] SEE BY DISCOVERY IF THEY CAN COME UP WITH A RATIONALE UPON WHICH CAN HANG THEIR CONTENTION THAT YOU KNEW THAT YOU DIDN'T HAVE A CHANCE.

ISN'T THAT RIGHT?

MR. KING: YOUR HONOR—

MR. KROFT: YES, YOUR HONOR.

AND I BELIEVE THERE IS EVIDENCE IN THE RECORD.

THE COURT: WELL, I'M SURE YOU DO.

(LAUGHTER.)

MR. KROFT: I SUBMITTED TO THE COURT IN CONNECTION WITH THE ISSUE THAT ITS AN IMPOSSIBILITY FOR ANYBODY EVER TO KNOW IN ADVANCE THAT AN OBJECTIVELY MERITORIOUS CLAIM RAISING VERY CLOSE ISSUES OF FIRST IMPRESSION WAS A LOSER.

AND THAT'S WHAT THE DEFENDANTS ARE ASKING THIS COURT TO CONCLUDE.

THE FACT THAT THIS CASE WAS VERY CLOSE PRECLUDES ANY POSSIBILITY OF THE PLAINTIFFS HAVING KNOWN IN ADVANCE THAT THEY HAVE UNMERITORIOUS CLAIM.

THE COURT: WELL, I'M INCLINED TO THINK SO TOO. THE PLAINTIFF—THE DEFENDANT COUNTERCLAIMANTS ARE GOING TO HAVE A SUBSTANTIAL UPHILL BATTLE.

BUT I BELIEVE THAT I MUST FIND OUT WHETHER OR NOT I'M OBLIGED TO GIVE THEM A CHANCE.

MR. KING: WOULD YOU LIKE US TO FILE SUPPLEMENTS BASED ON THE ISSUE OF FACT VERSUS—

THE COURT: I WOULD APPRECIATE THAT.

[19] IS THAT ALL RIGHT, MR. KROFT?

MR. KROFT: YES, SIR.

THE COURT: ALL RIGHT. I'LL TAKE IT UNDER SUBMISSION. THE PLAINTIFFS WILL FILE FIRST.

TWENTY DAYS ALL RIGHT?

MR. KROFT: DO YOU MEAN MR. KING?

THE COURT: THE DEFENDANT. I'M SORRY.

MR. KING WILL FILE FIRST.

MR. KING: YOU WANT US TO FILE BEFORE THEIR MOTION?

THE COURT: YES.

MR. KING: THEIR MOTION?

THE COURT: YES.

TWENTY, TWENTY AND TEN.

AND MR. KROFT, WILL YOU PROVIDE ME A TRANSCRIPT OF THIS MORNING'S HEARING?

MR. KROFT: YES, YOUR HONOR, I WILL DO SO.

THE COURT: ALL RIGHT, GENTLEMEN.

MR. KROFT: THANK YOU, YOUR HONOR.

MR. KING: THANK YOU, YOUR HONOR.

THE COURT: SUBMITTED.

(PROCEEDINGS ADJOURNED.)

Certificate of Service omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

FILED

JAN 8 1990

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

COUNTERCLAIMANTS' POST-ARGUMENT
MEMORANDUM IN OPPOSITION TO SUMMARY
JUDGMENT

Pursuant to the request of this Court at oral argument, Counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin ("Irwin"), respectfully submit this memorandum of law in opposition to Counterdefendants', Columbia Pictures Industries, Inc., *et al.* ("Counterdefendants"), motion for summary judgment on Irwin's counterclaims. As instructed, this memorandum discusses a single issue—whether, in this Circuit, a lawsuit that falls

within the scope of the sham exception (and thus unprotected by the *Noerr-Pennington* doctrine) is considered a question of fact or a question of law. Our research indicates that the courts of this Circuit which have addressed the issue uniformly consider the sham issue as one of fact. As such, summary judgment is improper where there are disputed issues of fact exist and adequate discovery has not been provided both parties.

This Circuit definitively stated that the determination of whether an underlying litigation was a sham is a question of fact in *Clipper Express v. Rocky Mountain Motor Tariff*, 690 F.2d 1240 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983). In *Clipper Express*, the Court of Appeals reversed a district court decision granting summary judgment for the antitrust defendants based on the *Noerr-Pennington* doctrine. The Court, in overruling, emphasized the factual nature of the issue:

It is unquestionably true, as defendants assert, that *Noerr-Pennington* confers antitrust immunity for conduct genuinely intended. Whether something is a genuine effort to influence government action, or a mere sham, is a question of fact.

Id. at 1253. The Court overruled the grant of summary judgment because factual issues existed as to whether defendant's activities came within *Noerr-Pennington* doctrine.¹

The following year, this Circuit again determined that whether a lawsuit is a sham is a question of fact. *See, e.g., Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 903 (9th

¹ Denying summary judgment in antitrust cases is common. The general rule is that dispositive pretrial motions are "disfavored" in antitrust cases. *Poller v. Columbia Broadcasting System, Inc.*, 368 U.S. 464, 473 (1962); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 901 (9th Cir. 1983); *Calnetics Corp. v. Volkswagon of America, Inc.* 532 F.2d 674, 683 (9th Cir.) (*per curiam*), *cert. denied*, 49 U.S. 940 (1976).

Cir. 1983) ("[w]hether an effort to invoke the judicial process is a genuine effort to obtain redress, or instead is a mere sham, is a question of fact"); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983) ("it is a question of fact in each instance whether an action is a genuine attempt to influence governmental action or is a mere sham").²

The courts in this Circuit have also implicitly held that whether litigation is a sham is a question of fact. *See, e.g., U.S.S. Posco Industries v. Contra Costa County Building & Construction Trades Council, AFL-CIO*, 692 F. Supp. 1166, 1170 (N.D. Cal. 1988) (allowing further discovery before ruling if improper motive was present); *U.S. Audio & Copy Corp. v. Phillips Business Systems, Inc.*, 1983-2 Trade Cas. (CCH) ¶ 65,364, at 70,174 (N.D. Cal. 1983) (although ruling that *Noerr-Pennington* did not apply for other reasons, court emphasized that antitrust plaintiff had introduced "sufficient evidence to raise a question of fact whether [defendant] had . . . an improper motive" in in-

² The majority of other circuits have similarly indicated that the issue is one of fact. *See, e.g., In re Burlington Northern, Inc.*, 822 F.2d 518, 526 (5th Cir. 1987), *cert. denied*, 108 S. Ct. 701 (1988) ("[t]he factfinder must determine . . . whether the petitioner was engaged in a genuine effort to influence governmental decisionmaking"); *Independent Taxicab Driver Employees v. Greater Houston Transportation Co.*, 760 F.2d 607, 612 n.9 (5th Cir. 1985) ("the existence or nonexistence of shamful conduct is generally a question of fact for the jury"); *Westmac, Inc. v. Smith*, 797 F.2d 313, 318 (6th Cir. 1986) ("[d]etermining whether a party who filed suit was indifferent to obtaining a favorable judgment may often be a difficult question of fact"); *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 472 (7th Cir. 1982), *cert. denied*, 461 U.S. 958 (1983); (recognizing the factual nature of the sham exception in stating "[t]he difficulty of determining the true purpose is great but no more so than in many other areas of antitrust law."); *Colorado Petroleum Marketers Ass'n v. Southland Corp.*, 476 F. Supp. 373, 379 (D. Colo.) ("[t]he question whether to interfere directly with business relationships of a competitor can be answered only after careful evaluation and consideration of all the facts and circumstances giving rise to the primary lawsuit brought by the plaintiffs").

stituting underlying claim); *Ross v. Bremer*, 1982-1 Trade Cas. (CCH) ¶ 64,746, at 71,618 (W.D. Wa. 1982) (emphasizing that "courts must examine closely the particular allegations of each case when determining whether a sham exception should be a question for a jury"); *In re Airport Car Rental Antitrust Litigation*, 521 F. Supp. 568, 588 (N.D. Cal. 1981) (recognizing that a court must "examine the facts put forward by plaintiff in response to this motion to determine whether they raised a genuine issue for trial"), *aff'd* 693 F.2d 84 (9th Cir. 1982), *cert. denied*, 462 U.S. 1133 (1983). *Cf.*, *Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1257 (9th Cir. 1982) (summary judgment granted because antitrust plaintiff failed to come forward with specific factual support for its allegations).

It is axiomatic that a question of fact should be resolved based on an analysis of all the facts. However, counterdefendants have patently refused to provide any meaningful discovery to Irwin. Federal courts are especially reluctant to dispose of antitrust suits at such an early stage of litigation.

[I]n antitrust cases, where "the proof is largely in the hands of the alleged conspirators," *Poller v. Columbia Broadcasting*, 368 U.S. 464, 473 (1962), dismissals prior to giving the plaintiff ample opportunity for discovery should be granted very sparingly.

Hospital Building Co. v. Rex Hospital Trustees, 425 U.S. 738, 746 (1976). *Accord Aydin Corp. v. Loral Corp.*, 718 F.2d at 901-02; *Ernest W. Hahn, Inc. v. Coddling*, 615 F.2d 830, 834 (9th Cir. 1980). This Circuit has specifically emphasized the need for full discovery, and the inappropriateness of summary judgment without the benefit of meaningful discovery, where a key allegation is the sham exception.

Here, plaintiff alleged facts which may be sufficient to support a claim under the sham excep-

tion. This claim should not be finally determined without the benefit of further facts. The parties are entitled to conduct some discovery of matters pertinent to the genuineness of the lawsuit before dismissal on summary judgment.

Energy Conservation v. Heliodyne, Inc., 698 F.2d at 389.

For the foregoing reasons, Irwin respectfully submits that counterdefendants' motion for summary judgment should be denied and discovery on the counterclaims proceed.

Respectfully submitted,

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Dated: January 8, 1990

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.

AND RELATED COUNTERCLAIM

PLAINTIFFS' AND COUNTERDEFENDANTS' POST-
HEARING MEMORANDUM IN SUPPORT OF MOTION
FOR SUMMARY JUDGMENT

I.

INTRODUCTION AND SUMMARY OF ARGUMENT

The Post-Argument Memorandum filed by defendants and cross-complainants (hereinafter "La Mancha") asserts that in this Circuit the issue whether a lawsuit (such as the copyright infringement action here) is a sham raises a pure question of fact and that, therefore, the Court has no choice but to deny the summary judgment motion brought by plaintiffs and cross-defendants (hereinafter "plaintiffs"). These assertions are erroneous.

It is well established in this Circuit that lawsuits cannot be considered sham unless the antitrust plaintiff demonstrates that the suits were brought *both* without probable cause *and* for a wrongful anticompetitive purpose. While the second element (wrongful anticompetitive purpose) may

raise factual issues regarding the antitrust defendant's intent in bringing his prior lawsuits, the *first* element (probable cause) raises a pure legal issue (*i.e.*, were the prior lawsuits grounded upon a reasonable basis in fact and law) which is quintessentially appropriate for resolution by summary judgment. Since this Court has concluded as a matter of law that this action was brought *with* probable cause, La Mancha cannot satisfy its burden of demonstrating an essential element of the sham exception to the *Noerr-Pennington* doctrine, and summary judgment on this issue is thus appropriate.

II.

ARGUMENT

The Ninth Circuit has not stated, as La Mancha asserts, that the issue whether a lawsuit falls within the sham exception raises a pure question of fact. Rather, the Ninth Circuit has held that the sham exception requires an antitrust plaintiff to establish *two* elements, one of which raises a pure question of law and the other of which raises a question of fact. As discussed below, plaintiffs are entitled to summary judgment because as a matter of law La Mancha cannot prevail on the *first* of these two elements, and hence a factual inquiry into the second element is unnecessary.

The Ninth Circuit's cases make clear that a lawsuit loses *Noerr-Pennington* immunity, thus giving rise to potential antitrust liability, only if the antitrust plaintiff establishes two things: (1) that the suit was brought without probable cause and (2) that the suit was brought for an improper purpose:

"[T]he immunity does not extend to so-called 'sham proceedings' which were instituted without probable cause *and* in complete disregard of the law to interfere with the business relationships of a compeqtitor." *Handgards, Inc. v. Ethicon*,

Inc., 743 F.2d 1282, 1294 (9th Cir. 1984) (citing *Clipper Express v. Rocky Mountain Motor Tarriiff Bureau, Inc.*, 690 F.2d 1240, 1251-54 (9th Cir. 1982)) (emphasis added)

"[A]llegations that proceedings were instituted without probable cause and regardless of merit, state a cause of action which falls within the exception to *Noerr*." *Clipper Express*, 690 F.2d at 1252 (emphasis added)¹

Thus, to come within the sham exception to the *Noerr-Pennington* doctrine, La Mancha must establish that plaintiffs brought their copyright infringement suit without probable cause and with an improper subjective intent.² To avoid summary judgment, moreover, La Mancha must demonstrate that each of these two essential elements of the sham exception (i.e., lack of probable cause and wrongful anticompetitive intent) raises unresolved fact questions. See *California Architectural Building Products, Inc. v. Franciscan Ceramics, Inc.*, 818 F.2d 1466, 1468 (9th Cir. 1987) ("if the non-moving party will bear the burden of proof at trial as to an element essential to its case, and that party fails to make a showing sufficient to establish a genuine dispute of fact with respect to the existence of

¹ As *Handgards* makes clear, a finding that the antitrust defendant brought his prior lawsuit without regard to the merits of his claim is equivalent to a finding that he wrongfully intended to harm competitors by the mere bringing of his suit rather than by obtaining a favorable judgment. 743 F.2d at 1294-95, quoting R. Bork, *The Antitrust Paradox* 354 (1978). See also *City of Gainesville v. Florida Power & Light Co.*, 488 F.Supp. 1258, 1265-66 (S.D. Fla. 1980) ("the prerequisite motive for the sham exception is the intent to harm one's competitors not by the result of the litigation but by the simple fact of the institution of the litigation" (emphasis in original)).

² Some Ninth Circuit cases use the term "baseless" rather than "without probable cause" to describe the first element of the sham exception. See, e.g., *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984), citing *Clipper Express*.

that element, then summary judgment is appropriate"). La Mancha cannot possibly make such a showing because the first (probable cause) element essential to La Mancha's sham litigation claim raises a pure question of law which this Court has already resolved adversely to La Mancha.

As plaintiffs' pre-hearing memoranda indicate, the Ninth Circuit has not yet directly addressed the issue whether, for purposes of antitrust liability, the first element of the two-part sham test (i.e., "lack of probable cause" or "baselessness") raises a question of law for the Court or, instead, raises a question of fact for the jury. The Ninth Circuit has, however, stated repeatedly in other contexts that a determination whether a lawsuit was brought "without probable cause" or was "baseless" raises a pure question of law. For example, the Ninth Circuit has held that "[i]n a malicious prosecution action the issue of probable cause is a question of law" which must be determined under an objective standard of reasonableness rather than under a subjective standard. *Lucero v. Stewart*, 89 Daily Journal D.A.R. 14890, 14891 (9th Cir. Dec. 14, 1989) (available on Lexis).³ Similarly, in cases decided under Rule 11—which authorizes sanctions for pleadings that are "baseless"⁴—the Ninth Circuit has held that baselessness must be determined under an "objective standard of reasonableness" rather than under a subjective standard. *Riverhead Savings Bank v. Federal Savings & Loan Ins. Corp.*, 90 Daily Journal D.A.R. 510, 51 (9th Cir. Jan. 12, 1990) (available on Lexis); *In re Disciplinary Action Against Mooney*, 841 F.2d 1003, 1005 (9th Cir. 1988) ("The re-

³ See also *Sheldon Appel Co. v. Albert & Oliker*, 47 Cal.3d 863, 874-82, 254 Cal.Rptr. 336, 342-47, 765 P.2d 498 (1989) (existence of probable cause in a malicious prosecution action is a question of law for the court, not a question of fact for the jury).

⁴ *Townsend v. Holman Consulting Corp.*, 881 F.2d 788, 792 (9th Cir. 1989).

quirements of Rule 11 are measured by an objective standard. Subjective good faith is not relevant").⁵

In short, the Ninth Circuit has plainly held that in malicious prosecution and Rule 11 cases it must examine the objective merit of a prior lawsuit, rather than the subjective motivation underlying it, in determining whether the suit was brought "without probable cause" or was "baseless," and that this determination raises an issue of law, not fact. By choosing terms to describe the first element of the sham exception ("without probable cause" and "baseless") which in the malicious prosecution and Rule 11 contexts so clearly raise pure issues of law, the Ninth Circuit has left no doubt that this element of the sham exception also raises a question of law which must be determined under an objective standard of reasonableness rather than under a subjective standard. See *Ad Visor, Inc. v. Pacific Telephone & Telegraph Co.*, 640 F.2d 1107, 1110 (9th Cir. 1981) (antitrust defendant's prior lawsuits were not sham because the suits were objectively reasonable). And, since this Court has concluded as a matter of law that this action was brought *with* probable cause (*Transcript of Proceedings* at 5, 18), thus resolving an essential element of the sham exception against La Mancha, summary judgment on La Mancha's sham litigation claim is entirely appropriate.⁶

The Ninth Circuit case primarily relied upon by La Mancha, *Clipper Express v. Rocky Mountain Motor Tariff*

⁵ Strong practical considerations support the Ninth Circuit's holdings that probable cause is an issue of law for the court rather than an issue of fact for the jury. A determination whether a lawsuit was filed with probable cause requires a thorough analysis of the state of the law at the time the initial lawsuit was filed, as well as an analysis of the evolutionary potential of existing precedent and legal principles. See *Sheldon Appel Co.*, 47 Cal.3d at 876, 886. A lay jury is not equipped to undertake such an analysis. *Id.* at 875.

⁶ A Copy of the *Transcript of Proceedings* is lodged concurrently herewith for ease of reference.

Bureau, Inc., does not require a contrary conclusion. Indeed, as noted above, *Clipper Express* confirms that the sham exception requires an antitrust plaintiff to establish two elements, i.e., that the prior lawsuit was instituted "without probable cause and regardless of merit." 690 F.2d at 1252 (emphasis added). It is true that *Clipper Express* held, as La Mancha notes (Post-Arg. Mem. at 2), that the *second* (wrongful intent) element of the sham exception raises a question of fact:

"Noerr-Pennington confers antitrust immunity for conduct *genuinely intended* to influence governmental action. Whether something is a *genuine effort* to influence governmental action, or a mere sham, is a question of fact." 690 F.2d at 1253 (first emphasis in original; second emphasis added).

But the Court did not hold—nor could it rationally have done so—that the first (probable cause) element of the sham exception also raises a question of fact, rather than an issue of law. Indeed, it is clear that the prior litigation involved in *Clipper Express*, consisting of multiple unsuccessful claims, had no objective merit and, therefore—unlike the copyright infringement suit here—lacked probable cause as a matter of law.⁷

⁷ The other two Ninth Circuit cases upon which La Mancha relies merely follow the *Clipper Express* holding that a determination of the second (wrongful intent) element of the sham exception is a question of fact, i.e., *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 903 (9th Cir. 1983) ("whether an effort to invoke the judicial process is a *genuine effort* to obtain redress, or instead is a mere sham, is a question of fact" (emphasis added)); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983) ("[I]t is a question of fact in each instance whether an action is a *genuine attempt* to influence governmental action or is a mere sham" (emphasis added)). Neither *Aydin* nor *Energy Conservation*, however, held, or even suggested, that the first (probable cause) element of the sham exception is also a question of fact, rather than an issue of law.

La Mancha's reliance upon cases from other circuits is also unavailing. According to La Mancha, these cases provide convincing authority for the proposition that the issue whether a prior lawsuit was "sham" must be judged by the antitrust defendant's subjective motivation in bringing the suit rather than by the suit's objective merit.⁸ However, a close reading of these cases indicates that their analysis of what type of litigation may properly be condemned as "sham" departs significantly from the Ninth Circuit's teaching on this subject.

The rule in the Fifth and Seventh Circuits that an objectively reasonable lawsuit may be deemed a sham simply because the suit was brought with wrongful subjective intent inevitably leads, as the Fifth Circuit was acknowledged, to the unsettling conclusion that even a successful suit might, if improperly motivated, give rise to antitrust liability. See *In Re Burlington Northern*, *supra*, 822 F.2d at 527 ("We cannot, however, lay down a categorical rule that successful petitioning can never be a sham"); *Id.* at 528. In contrast, in the Ninth Circuit a successful prior lawsuit can never form the basis for antitrust liability un-

⁸ La Mancha errs in stating that "the majority of other circuits" agree that the sham litigation issue must be considered a question of fact regardless of whether the prior suit was brought with probable cause. (Post-Arg. Mem. at 3, n. 2). While the Fifth and Seventh Circuits have adopted that erroneous rule (see, e.g., *In Re Burlington Northern*, 822 F.2d 518, 526-28 (5th Cir. 1987); *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 472 (7th Cir. 1982)), the Eighth and Tenth Circuits have rejected it. See e.g. *Razorback Ready Mix Concrete Co., Inc. v. Weaver*, 761 F.2d 484, 487-88 (8th Cir. 1985) (affirming summary judgment on sham litigation issue "regardless of [antitrust defendant's] motive" in bringing prior suit); *Hydro-Tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171, 1176-77 (10th Cir. 1982) (affirming Rule 12(b)(6) dismissal of complaint brought under the sham exception to *Noerr-Pennington*); *Adolph Coors Co. v. A&S Wholesalers, Inc.*, 561 F.2d 807, 812 (10th Cir. 1977) (because the issue raised in antitrust defendant's prior lawsuit was sufficiently difficult to warrant Supreme Court review, the prior lawsuit cannot be deemed a sham).

der the sham exception. *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1384 (9th Cir. 1984) (there is "no authority for holding meritorious lawsuits to be 'sham' litigation violative of antitrust laws").⁹

There is simply no principled way under the first amendment to adhere to the Ninth Circuit's rule that a successful lawsuit—even one brought with wrongful anticompetitive intent—cannot form the basis for antitrust liability while at the same time holding, as La Mancha would have this Court do here, that an objectively meritorious, but ultimately unsuccessful, suit brought with such a wrongful intent *does* give rise to antitrust liability. Since a litigant can never know at the time he files a lawsuit raising difficult issues whether he will eventually win that suit, La Mancha's contrary contention, if accepted by this Court, would convert every suit against a competitor into an antitrust lottery, with treble antitrust damages the penalty for guessing wrong as to the eventual outcome of the case. The first amendment underpinnings of *Noerr*, which guarantee the constitutional right to bring meritorious claims—even losing claims—before the courts, simply do not permit antitrust liability to turn on whether the improperly motivated antitrust defendant ultimately wins or loses his objectively meritorious claim. See *In Re Burlington Northern*, *supra*, 822 F.2d at 534-35 (dissenting opinion); Handler and De Sevo at 40 ("Simply put, *Noerr* cannot be harmonized with a holding that nonetheless claims can be classified as sham merely because their assertion rests on improper motive").

⁹ See also *Coca-Cola v. Overland, Inc.*, 692 F.2d 1250, 1257 n.17 (9th Cir. 1982); M. Handler and R. De Sevo, *The Noerr Doctrine and Its Sham Exception*, 6 Cardozo L.Rev. 1, 31 (1984) ("Handler and De Sevo") ("How a successful suit can conceivably be a sham is not explained, nor do we understand how it could be.").

III.

CONCLUSION

For all of the foregoing reasons, as well as for the reasons set forth in plaintiffs' two pre-hearing memoranda of points and authorities, plaintiffs' motion for summary judgment should be granted.

DATED: January 29, 1990. ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
STACEY M. BYRNES

By: /s/ Stephen A. Kroft
STEPHEN A. KROFT

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IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

COUNTERCLAIMANTS' POST-ARGUMENT REPLY
MEMORANDUM IN OPPOSITION TO SUMMARY
JUDGMENT

Counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin ("Irwin") respectfully submit this memorandum in reply to Plaintiffs and Counterdefendants' Post-Hearing Memorandum in Support of Motion for Summary Judgment ("Counterdefendants' Memo."). As detailed in Irwin's initial Post-Argument Memorandum ("Counterclaimants' Initial Memo."), the courts of this Circuit uniformly consider the issue of whether a lawsuit falls within the scope of the sham exception (and thus unprotected by the *Noerr-Pennington* doctrine) as a question of fact.

In response, Counterdefendants attempt to qualify this dictate by asserting a new argument. Counterdefendants contend that this Circuit has established a two-pronged test for determining whether a lawsuit is a sham and outside the *Noerr-Pennington* doctrine. Under Counterde-

fendants' new theory, a suit is a sham if it is brought both without probable cause and with an anticompetitive intent. Counterdefendants then argue that the first prong, probable cause, is a question of law. Counterdefendants' Memo. at 1-5. In actuality, this circuit has never promulgated such a two-pronged test. In fact, courts which have addressed the issue have determined that a lawsuit could be a sham even if brought with "probable cause". Because Counterdefendants have refused to provide any discovery as to its knowledge in instituting the underlying lawsuit, summary judgment is improper.¹

¹ Irwin's antitrust counterclaims are not predicated merely on the sham litigation instituted by Counterdefendants. Rather, Counterdefendants have engaged in other anticompetitive activities with an intent to restrain and eliminate trade in the retail sale and rental of videos and, in particular, in the rental of videos for private viewing in hotel rooms by, among other actions:

- Boycotting and concertedly refusing to grant licenses to Irwin and possibly others;
- Misusing their copyrights by employing threatening notices on videos that state viewing of the video is restricted to "home use" and that non-home use will subject the user to civil and criminal penalties, in conjunction with the FBI symbol;
- Placing of threatening advertisements by their trade associations in hotel trade journals warning hotels against "stealing" Counterdefendants' copyrights by renting or using videos; and
- Discriminating among licensees by charging different license fees to different distributors, possibly to punish distributors that sell to businesses that rent videos, and other improper acts.

Further discovery is necessary to develop these claims. The courts have recognized that even a legitimate activity can be subject to review if part of a broader anticompetitive scheme. *Clipper Express v. Rocky Mountain Tariff Bureau, Inc.*, 690 F.2d 1240, 1263 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983).

ARGUMENT

The Ninth Circuit has definitively stated that the determination of whether an underlying litigation was a sham is a question of fact. *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1253 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983) ("[w]hether something is a genuine effort to influence governmental action, or a mere sham, is a question of fact"); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 903 (9th Cir. 1983) ("[w]hether an effort to invoke the judicial process is a genuine effort to obtain redress, or instead is a mere sham, is a question of fact"); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983).² This Circuit has specifically emphasized the need for full discovery, and the inappropriateness of summary judgment without the benefit of meaningful discovery, where a key allegation is the sham exception. *Energy Conservation v. Heliodyne, Inc.*, 698 F.2d at 389. Counterdefendants themselves recognize that the "requisite motive for the sham exception is the intent to harm one's competitors not by the *result* of the litigation but by the simple fact of the *institution* of litigation." *Gainesville v. Florida Power & Light Co.*, 488 F. Supp. 1258, 1265-66 (S.D. Fla. 1980) (emphasis in original). See also *Clipper Express v. Rocky Mountain Tariff Bureau, Inc.*, 690 F.2d at 1255. Counterdefendants do not, and cannot, deny that this inquiry into intent is purely a question of fact. See Counterdefendants' Memo. at 2.

Faced with uncontradicted precedent that the applicability of the sham exception is a question of fact, Counterdefendants create a new theory. Counterdefendants argue, for the first time in their Post-Hearing Memorandum, that the Ninth Circuit has "clear[ly]" established a two-pronged test for assessing the applicability of the sham

² That the issue of sham is a question of fact is discussed more fully in Counterclaimants' Initial Memo. at 2-4.

exception. Counterdefendants' Memo. at 2. Counterdefendants argue that *Noerr-Pennington* immunity is lost only if plaintiff can establish both that the suit was filed without probable cause and the suit was brought for an improper purpose. *Id.* Counterdefendants then contend that the first prong, whether a suit is brought without probable cause, is a question of law and not fact. *Id.* Yet, there is not a single case that sets forth a two-pronged test much less that one of those prongs raises a question of fact. Rather, the cases have uniformly held that the applicability of the sham exception to *Noerr-Pennington* immunity is a question of fact. In fact, the courts in this Circuit have held that the sham exception to *Noerr-Pennington* applies even if the underlying lawsuit was brought with objective probable cause. Not only is Counterdefendants' contention of a two-pronged test unsupported, but it is contradicted by the precedent in this Circuit.³

I.

THE NINTH CIRCUIT HAS NOT ADOPTED COUNTERDEFENDANTS' ASSERTED TWO-PRONGED TEST

Counterdefendants state that "[i]t is well established in this Circuit that lawsuits cannot be considered sham unless the antitrust plaintiff demonstrates that the suits were

³ Irwin disputes Counterdefendants' assertion that "this Court has concluded as a matter of law that this action was brought *with* probable cause." Counterdefendants' Memo. alt 5 (emphasis in original). To support this contention, Counterdefendants rely on isolated comments made three months after the hearing on the merits, at a hearing to determine whether discovery on the counterclaims should be stayed pending appeal. Yet, a review of the transcript of the December 19, 1985 hearing on the merits reveals no question but that Counterdefendants' claim lacked merit. Irwin urges the Court to review this transcript and its notes for a full picture of what transpired concerning the merits of the suit. A copy of the *Transcript of Proceedings* is lodged concurrently herewith for ease of reference.

brought *both* without probable cause *and* for a wrongful anticompetitive purpose". Counterdefendants' Memo. at 1. Counterdefendants cite no case explicitly stating such a two-pronged test for the sham exception, with one prong being a question of law and the other a question of fact. In fact, no such case exists. Rather, Counterdefendants attempt to extrapolate its "clear" and "well established" test from a single quote in *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1252 (9th Cir. 1982)

[A]llegations that proceedings were instituted without probable cause, *and* regardless of merit, state a cause of action which falls within the exception of *Noerr*.

(emphasis added by Counterdefendants.) Counterdefendants rely exclusively on the word "and" to create a rule having both objective elements (legal) and subjective elements (factual).⁴

The quote in no way establishes a two-pronged test where both prongs need to be satisfied before a sham finding is warranted. Rather, the court is merely stating that in that particular action, a suit was instituted without objective probable cause, and the party instituting the action had a "bad" subjective intent. If the court in *Clipper Express* actually intended to create a two-pronged test, it would have explicitly done so. No case before or after *Clipper Express* has ever articulated this two-part test that Counterdefendants now contend is "clear" and "well established." Indeed, no court has even cited *Clipper*

⁴ Counterdefendants also cite *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1294 (9th Cir. 1984), for the proposition that a claim brought with probable cause cannot be a sham: "the immunity does not extend to so-called 'sham proceedings', which were instituted without probable cause *and* in complete disregard of the law to interfere with the business relationships of a competitor." (emphasis added). This case cites *Clipper Express*, and the quotes mirror each other.

Express as developing such a discrete two-pronged test. Instead, courts cite *Clipper Express* for the proposition that the sham exception is a question of fact, requiring full discovery into the circumstances surrounding the initiation of the lawsuit.⁵ *Aydin Corp. v. Loral Corp.*, 718 F.2d at 903.

Finally, Counterdefendants contend that their first prong "probable cause" test is a question of law. They cite not a single case to support this contention. Rather, they rely on cases concerning violations of the obligations under Rule 11 of the Federal Rules of Civil Procedure to investigate adequately claims before filing a suit, and cases contending that prosecution was maliciously instituted. This Circuit has repeatedly held that whether the sham exception to *Noerr-Pennington* is applicable is a question of fact. Counterdefendants cite no caselaw or reason why this Court should ignore those holdings and apply instead the standard used to judge Rule 11 and malicious prosecution cases.

⁵ Counterdefendants contend that the first prong is whether there is probable cause for the suit and that this test raises a question of law. Yet, Counterdefendants define "probable cause" as "whether the prior lawsuits [were] grounded upon a reasonable basis in fact and law." Counterdefendants' Memo. at 1. They also define the second element, which they acknowledge to be a factual issue, as whether the lawsuit was filed "regardless of merit." Counterdefendants' Memo. at 2. Certainly, "without regard to the merits" and "probable cause" (defined as without "basis in fact and law") are the same. Counterdefendants are simply trying to create a two-pronged test in which the distinction between the prongs identifies no meaningful difference. Under both prongs, the question is whether plaintiff brought the suit knowing it lacked merit. This issue, the courts have held, is a question of fact. *Clipper Express*, 690 F.2d at 1253.

II.

THE SHAM EXCEPTION CAN APPLY EVEN IF THE SUIT IS BROUGHT WITH PROBABLE CAUSE

Counterdefendants claim that a lawsuit brought with probable cause can never be a sham in this Circuit. The Ninth Circuit has never promulgated such a test. In fact, courts in this Circuit have determined that a claim brought with objective probable cause, even a successful suit, can be a sham and thus unworthy of *Noerr-Pennington* protection.

In *Ernest W. Hahn, Inc. v. Coddling* 615 F.2d 830 (9th Cir. 1980), this Circuit indicated that the success or failure of the underlying suit is merely one factor to be weighed in determining whether it was a sham.

While success before the political or adjudicative body is not the sole criterion for determining whether a course of proceeding was undertaken as a sham to interfere directly with the business relationships of a competitor, it is a factor considered in determining whether a cause of action is stated under the sham exception.

Id. at 841 n.13 (9th Cir. 1980).

That a successful suit, and certainly one brought with mere probable cause, can be a sham was reemphasized by a court of this Circuit in *Ross v. Bremer*, 1982-2 Trade Cas. (CCH) ¶ 64,746 (W.D. Wa. 1982). The Court stated that:

This court does not believe that success alone can be considered determinative that a course of lawsuits will be protected under *Noerr-Pennington*. There are other questions that must be answered, such as: whether defendants intended to harm their competitors by misusing the adjudicatory process by bringing the lawsuit without

regard or concern about the *result* of the lawsuit; and whether the lawsuit itself would have been baseless or meritless but for the use of deception on the courts.

Id. at 71,618 (emphasis in original). Thus, even a successful suit, much less one brought with probable cause, will not totally preclude a finding of sham. This alone eliminates any merit to Counterdefendants' proffered two-pronged test. If a successful suit can still be the basis of a sham claim, then Counterdefendants' claim that the test includes an objective question of whether there was probable cause is invalid.

The court in *Ross* also emphasized the need for full discovery in sham cases because "courts must examine closely the particular factual allegations of each case when determining whether a sham exception should be a question for the jury." The court recognized that "the policy disfavoring summary dismissals in antitrust cases remains no less strong because *Noerr-Pennington* is invoked." *Id.* at 71,618 (citing *Ernest W. Hahn, Inc.*, 615 F.2d at 834).

Contrary to Counterdefendants' assertions, no court in this Circuit has ever held that a successful lawsuit cannot be a sham. Counterdefendants rely on *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1384 (9th Cir. 1984), and *Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1257 n.17 (9th Cir. 1982). However, *Sealy* and *Coca-Cola* merely recognize that the courts of the Circuit have yet to find a successful lawsuit to be a sham. These cases do not, as Counterdefendants argue, state that a suit which is ultimately successful, much less a suit which is deemed merely "meritorious", could never be a sham. In fact, this Circuit has recognized just the opposite. See *Ernest W. Hahn, Inc.*, 615 F.2d 841 n.13; *Ross v. Bremer*, 1982-2 Trade Cas. (CCH) at 71,618.

Finally, Counterdefendants argue that a litigant filing a lawsuit raising difficult issues is subjecting itself to an

"antitrust lottery, with treble antitrust damages the penalty for guessing wrong as to the eventual outcome of the case." This is not true. If a party files a meritorious lawsuit, be it ultimately successful or not, the lawsuit would most likely be not deemed a sham so long as the party filing the suit instituted the action in subjective good faith. Irwin is simply requesting that the Court not deny the opportunity to investigate adequately Counterdefendants' knowledge in instituting the suit.⁶ Thus, a party initiating an action in subjective good faith is not subjecting itself to an "antitrust lottery". It is only when they institute a suit, as Counterdefendants have here, knowing that their claims lacked merit.

As Counterdefendants have argued, an antitrust plaintiff bears a substantial burden in proving sham when the underlying suit is successful. *In re Burlington Northern, Inc.*, 822 F.2d 518, 528 (5th Cir. 1987). Counterdefendants' underlying claim, however, was *not* successful, and it is questionable if it was truly bought with objective "probable cause". See note 3, *supra*. In any event, Irwin is entitled to discovery concerning Counterdefendants' intent and knowledge. See *Clipper Express*, 690 F.2d at 1255. Since Counterdefendants have afforded Irwin no meaningful discovery as to its knowledge in instituting the suit, summary judgment is improper.

CONCLUSION

Counterdefendants do not, because they cannot, challenge Irwin's correct citation of the law that whether the

⁶ This is not the case of an antitrust plaintiff merely "fishing" for detrimental information against the opposing party. In Counterclaimants' Memorandum In Opposition To Counterdefendants' Motion For Summary Judgment at 12-13, Irwin set forth specific reasons indicating that Counterdefendants knew that the lodging facilities at Irwin's facility are private, not public, places and that their copyright action was without merit.

sham exception is applicable is a question of fact. Rather, they create, for the first time in their Post-Hearing Memorandum, a new, two-pronged test. Other than their own creative reading of two cases, Counterdefendants have cited not a single case to support this new, two-pronged test. Rather, Counterdefendants seek to have this Court assume the Ninth Circuit intended to create this two-pronged test and assume that the first prong of the test, "probable cause," is a question of law. To make these assumptions, Counterdefendants would have the Court ignore the consistent decisions of this Circuit holding that the application of the sham exception to the *Noerr-Pennington* doctrine is a question of fact. For the foregoing reasons, Irwin respectfully submits that Counterdefendants' motion for summary judgment should be denied and discovery on the counterclaims proceed.

Respectfully submitted.

COLLIER, SHANNON & SCOTT

By: /s/ JW King

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Counsel for Counterclaimants,

Professional Real Estate Investors, Inc.

and Kenneth F. Irwin

Date: February 12, 1990

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

FILED
CLERK, U.S. DISTRICT COURT
MAR 2 1990
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

MEMORANDUM OF DECISION

The plaintiff's motion for summary judgment on the defendant's counterclaim was heard on December 12, 1989, and taken under submission by the court for the purpose of determining whether the "sham" exception to the Noerr-Pennington doctrine¹ applies to the action of the plaintiff in having filed and prosecuted this case. The court now concludes that such action was not a sham and that, under

¹ *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); and *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

the Noerr-Pennington doctrine, the counterclaim must be dismissed.

The claim that the plaintiff set forth in its complaint was adjudicated by this court. It was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the Court of Appeals had trouble with it as well. I find that there was probable cause for bringing the action, regardless of whether the issue was considered a question of fact or of law.

Under the Noerr-Pennington doctrine, "[f]irst amendment protection is extended and application of the anti-trust laws suspended because a legitimate effort to influence government action is part of the guaranteed right to petition." *Clipper Express v. Rocky Mountain Motor Tariff*, 690 F.2d 1240, 1255 (9th Cir. 1982). Here the plaintiff's attempt, although unsuccessful, was clearly a legitimate effort and therefore not a sham.

The defendant points to the comment in the opinion in *Clipper* that "whether something is a genuine effort to influence governmental action is a question of fact." 690 F.2d at 1253. The defendant then insists that it is entitled to discovery in an effort to show that the plaintiff brought this action in furtherance of its efforts "to restrain and eliminate trade in the retail sale and rental of videos and, in particular, in the rental of videos for private viewing in hotel rooms." (Defendant's brief of February 12, 1990, page 2, fn. 1).

However, as is pointed out in *Clipper*, 690 F.2d at 1251, the Supreme Court in *Noerr* held that "even if the defendants' sole purpose in seeking to influence the passage and enforcement of laws was to destroy the truckers' business, the immunity remained."

This case is distinguishable from *Clipper* and from *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), upon which the defendant relies, in that, there, the actions alleged to have been sham were assertions made in pleadings and could not be factually evaluated; here, the accused actions were adjudicated by the court and specifically determined not to have been a sham.

In accordance with the foregoing, a judgment dismissing the counterclaim will be rendered.

DATED: March 1, 1990

William P. Gray
WILLIAM P. GRAY
United States District Judge

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED
CLERK, U.S. DISTRICT COURT

MAR 12 1990

CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

SUMMARY JUDGMENT IN FAVOR OF PLAINTIFFS ON
COUNTERCLAIM

On December 18, 1989, the above-captioned matter came on regularly for hearing in the Courtroom of the Honorable William P. Gray, District Judge, on plaintiffs' and counterclaim defendants' motion for summary judgment on the counterclaim asserted by defendants and cross-complainants. Plaintiffs and counterclaim defendants appeared through their counsel, Rosenfeld, Meyer & Susman and Stephen A. Kroft and James L. Seal, and defendants and counterclaimants appeared through their counsel, Collier,

Shannon & Scott and Jeffrey W. King. The parties filed memoranda of points and authorities and affidavits in support of and in opposition to said motion prior to the December 18, 1989 hearing. After the hearing, the parties submitted additional memoranda of points and authorities in support of and in opposition to the motion.

Having read and considered the papers filed by the parties in support of and in opposition to the motion, and having heard and considered oral argument of counsel, and having determined that plaintiffs and counterclaim defendants are entitled to a judgment on the counterclaim as a matter of law, and good cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. Plaintiffs' and Counterdefendants' Motion For Summary Judgment As To The First, Second And Third Counterclaims And For Dismissal Of Remaining Pendent Claims is granted.

2. The First Counterclaim, Second Counterclaim and Third Counterclaim, and each of them, are hereby dismissed on the merits with prejudice.

3. The pendent claims arising under state law asserted in the Fourth Counterclaim, Fifth Counterclaim, Sixth Counterclaim and Seventh Counterclaim are hereby dismissed without prejudice for lack of subject matter jurisdiction.

4. Plaintiffs and counterclaim defendants shall have and recover their costs incurred in defending the Counterclaim and each claim contained therein.

5. The Clerk is directed to enter this Judgment in favor of plaintiffs and counterclaim defendants forthwith.

DATED: March 12, 1990

WILLIAM P. GRAY
WILLIAM P. GRAY
 UNITED STATES DISTRICT JUDGE

Submitted By:
 ROSENFELD, MEYER & SUSMAN
 STEPHEN A. KROFT
 JAMES L. SEAL
 STACEY M. BYRNES

By Stephen A. Kroft
 STEPHEN A. KROFT
 Attorneys for Plaintiffs and
 Counterclaim Defendants

[Certificate of Service omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

FILED

MAR 16 1990

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

DEFENDANTS AND COUNTERCLAIMANTS'
OBJECTIONS TO THE SUMMARY JUDGMENT ORDER
PROPOSED BY PLAINTIFFS AND
COUNTERDEFENDANTS

INTRODUCTION

On March 2, 1990, after consideration of Plaintiffs and Counterdefendants' Motion for Summary Judgment, Defendants and Counterclaimants' Opposition, oral argu-

ment, and supplemental briefs, the Court issued a decision granting summary judgment. Thereafter, on March 8, 1990, Plaintiffs and Counterdefendants filed with the Court and served by mail on Defendants and Counterclaimants, Professional Real Estate Investors, Inc. and Kenneth F. Irwin (hereinafter collectively referred to as "Irwin"), a proposed Summary Judgment Order that is the subject of these objections and requests for modifications.

Irwin requests two modifications to the order, as explained more fully below. First, Irwin seeks to strike the paragraph awarding costs. Second, Irwin seeks to modify the order to provide that Plaintiffs and Counterdefendants are not to destroy any documents until all appeals available to Irwin, or the time for such appeals, have expired.

OBJECTIONS AND MODIFICATIONS

I. COSTS ARE NOT WARRANTED IN THIS CASE

As part of their orders, Plaintiffs and counterdefendants propose that this Court order that Plaintiffs and Counterdefendants: "shall have and recover their costs defending the Counterclaim and each claim contained therein." Proposed Summary Judgment in Favor of Plaintiffs on Counterclaim at ¶ 4, p. 2 (hereinafter "Proposed Order"). As this Court is aware, Plaintiffs and Counterdefendants have essentially refused to provide any discovery on the counterclaims. Their failure to provide this discovery caused Irwin to file several motions to compel. The Court never ruled on these motions, ordering the parties to negotiate a solution.¹ As a result, the majority of any costs that Plaintiffs and Counterdefendants have incurred were the result of their own refusal to participate meaningfully

¹ The first motion to compel also sought to compel discovery on matters that involved Plaintiffs and Counterdefendants' claims they made in their original complaint. That portion of the motion became moot when this Court granted summary judgment on Plaintiffs and Counterdefendants' claims in December 1985.

in the discovery process. To allow them now to benefit and recover costs for that activity would be extremely unfair.

Moreover, much of the activity taken in the initial portions of this case involved not only the counterclaims but also the Plaintiffs and Counterdefendants' own claims. It would, therefore, be difficult to separate some of that activity. Accordingly, to award costs would result in the need for additional discovery and motion practice. Given the expense Plaintiffs and Counterdefendants have inflicted upon Irwin in defending its video rental system, to allow Plaintiffs and Counterdefendants to recover any of their costs would be inappropriate.

II. PROTECTION AGAINST DESTRUCTION OF DOCUMENTS IS NEEDED

As set forth above, Plaintiffs and Counterdefendants have uniformly resisted discovery on Irwin's counterclaims. There has been virtually no production of documents which in turn has thwarted all other efforts to initiate discovery. As a result, the Court issued an order "that no documents be destroyed." See Civil Minute Order dated march 24, 1986. That order continues in effect to the present.

Upon receiving the Court's March 2, 1990 opinion granting Plaintiffs and Counterdefendants' summary judgment, Irwin contacted Plaintiffs and Counterdefendants to request that they continue to abide by the order, at least until Irwin makes a decision on the appeal. Plaintiffs and Counterdefendants have agreed to that arrangement. As a result, the order will stay in place until an appeal is filed or the time to appeal expires.

It is essential, that if Irwin appeals this Court's summary judgment decision, that an order preventing destruction of important documents remains in place. If Irwin does appeal, and is successful in that appeal, its ability to prove its case would be severely hindered if Plaintiffs and

Counterdefendants can destroy documents during the pendency of the appeal. As a matter of fairness, the order should be modified to include the following paragraphs:

Until all appeals by either party have expired, or the time for such appeals has expired, or otherwise ordered by this Court or the Ninth Circuit Court of Appeals, it is ordered that no documents related in any way to the counterclaims be destroyed.

Inclusion of this language will ensure that Irwin has a fair opportunity to complete its discovery should Irwin succeed on its appeal, if one is taken.

CONCLUSION

It is important that this Court take into consideration the history of this case and the on-going refusal of Plaintiffs and Counterdefendants to participate in or provide any meaningful discovery. Accordingly, for the foregoing reasons, the proposed Summary Judgment Order should be modified to eliminate any award to Plaintiffs and Counterdefendants' of their costs, and should include a provision to ensure that documentary evidence is not destroyed during the pendency of any appeals.

Respectfully submitted,
COLLIER, SHANNON & SCOTT

Cecelia A. Lupi, Esq.

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Counsel for Defendants and
Counterclaimants, Professional
Real Estate Investors, Inc. and
Kenneth P. Irwin

DATED: March 15, 1990

[Proof of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED
CLERK, U.S. DISTRICT COURT

APR 6 1990

CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

AMENDED SUMMARY JUDGMENT IN FAVOR OF
PLAINTIFFS ON COUNTERCLAIM

On December 18, 1989, the above-captioned matter came on regularly for hearing in the Courtroom of the Honorable William P. Gray, District Judge, on plaintiffs' and counterclaim asserted by defendants and cross-complainants. Plaintiffs and counterclaim defendants appeared through their counsel, Rosenfeld, Meyer & Susman and Stephen A. Kroft and James L. Seal, and defendants and counterclaim plaintiffs appeared through their counsel, Collier, Shannon & Scott and Jeffrey W. King. The parties filed

memoranda of points and authorities and affidavits in support of and in opposition to said motion prior to the December 18, 1989 hearing. After the hearing, the parties submitted additional memoranda of points and authorities in support of and in opposition to the motion.

Having read and considered the papers filed by the parties in support of and in opposition to the motion, and having heard and considered oral argument of counsel, and having determined that plaintiffs and counterclaim defendants are entitled to a judgment on the counterclaim as a matter of law, and good cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. Plaintiffs' and Counterclaim Defendants' Motion For Summary Judgment As To The First, Second And Third Counterclaims And For Dismissal Of Remaining Pendent Claims is granted.

2. The First Counterclaim, Second Counterclaim and Third Counterclaim, and each of them, are hereby dismissed on the merits with prejudice.

3. The pendent claims arising under state law asserted in the Fourth Counterclaim, Fifth Counterclaim, Sixth Counterclaim and Seventh Counterclaim are hereby dismissed without prejudice for lack of subject matter jurisdiction.

4. Plaintiffs and counterclaim defendants shall have and recover their costs incurred in defending the Counterclaim and each claim contained therein.

5. Until all appeals, if any, from this amended judgment have been resolved, dismissed or abandoned, or the time for filing a notice of appeal from this amended judgment has expired without such a notice of appeal having been filed, or until otherwise ordered by this Court or by the Ninth Circuit Court of Appeals, plaintiffs and counterclaim

defendants are prohibited from destroying documents related in any way to the counterclaims. This Court shall retain continuing jurisdiction to dissolve, vacate, suspend, modify or enforce the provisions of this Paragraph 5 during the pendency of any appeal in this action.

6. The Clerk is directed to enter this amended judgment in favor of plaintiffs and counterclaim defendants forthwith.

DATED: April 4, 1990

William P. Gray
WILLIAM P. GRAY
UNITED STATES DISTRICT JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.

AND RELATED COUNTERCLAIM

NOTICE OF ENTRY

TO DEFENDANTS AND COUNTERCLAIM PLAINTIFFS
AND TO THEIR ATTORNEYS OF RECORD:

YOU AND EACH OF YOU WILL PLEASE TAKE NOTICE
that the Amended Summary Judgment in Favor of
Plaintiffs on Counterclaim was entered by the Clerk in
the above-captioned matter on April 9, 1990 and the Stip-
ulation Re Amended Judgment and Order Thereon
(F.R.Civ. P. 59(e)) was entered on April 10, 1990.

DATED: April 13, 1990. ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
STACEY M. BYRNES

By: /s/ Stephen A. Kroft
STEPHEN A. KROFT

[Verification and Proof of Service omitted in this printing]

No. 90-55583

No. 90-55668

No. 90-55746

IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

(USDC-Central District
Docket No. 83-2594 WPG)

COLUMBIA PICTURES INDUSTRIES, etc., et al.
Plaintiffs/Counter-Defendants/Appellees
vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,
Defendants/Counter-Claimants/Appellants

MOTION TO STRIKE PORTIONS OF APPENDIX TO
FIRST CROSS-APPEAL BRIEF

Plaintiffs/Counter-Defendants/Appellees hereby move the
Court for an order striking pages 548-550 and 554-577
(Tabs CC, DD and FF) from the Appendix To First Cross-
Appeal Brief submitted by Defendants/Counter-Claimants/
Appellants Professional Real Estate Investors, Inc. and
Kenneth F. Irwin ("defendants") in the above-captioned
matter. The grounds for this motion are that defendants
did not submit the foregoing material to the District Court,
such material is therefore not part of the record in the
District Court or on this Appeal, and defendants therefore
may not rely on it in this Court.

DATED: November 8, 1990.

ROSENFELD, MEYER & SUSMAN
 STEPHEN A. KROFT
 JAMES L. SEAL
 TERRI L. CHENEY

By: /s/ Stephen A. Kroft
 STEPHEN A. KROFT
 Attorneys for Plaintiffs Counter-
 Defendants/Appellees

MEMORANDUM OF POINTS AND AUTHORITIES INTRODUCTION

By this motion, Plaintiffs/Counter-Defendants/Appellees ("plaintiffs") seek an order striking certain portions of the Appendix To First Cross-Appeal Brief ("Appendix") submitted to this Court by Defendants/Counter-Claimants/Appellants Professional Real Estate Investors, Inc. and Kenneth F. Irwin ("defendants").¹ The portions of the Appendix to which this motion is directed consist of a copyright warning label, a trade journal article and a distribution agreement, all of which defendants contend violate antitrust law. (See Corrected First Cross-Appeal Brief ("Opening Brief") 19-24.) These materials appear in the Appendix at pages 548-550 and 554-577, and are designated as Tabs CC, DD and FF in the Appendix. The grounds for this motion are that defendants did not submit any of the foregoing material to the District Court, and such material is therefore not part of the record in the District Court or on this appeal.

ARGUMENT

In this appeal, defendants seek reversal of a summary judgment dismissing their antitrust counterclaim. In their Opening Brief, defendants argue, among other things, that the documents designated as Tabs CC, DD and FF in their Appendix raised triable issues of fact precluding summary judgment (Opening Brief 19-24). Defendants fail to advise the Court, however, that these documents were neither filed nor submitted as evidence in the District Court.

The only evidence that defendants submitted to the District Court in opposition to plaintiffs' summary judgment motion was the declaration of appellant Kenneth F. Irwin ("Irwin"). See Appendix 551-53. Defendants also submitted

¹ Presumably, defendants intend this Appendix to serve as their Excerpts of Record pursuant to Ninth Circuit Rule 30-1.

a declaration by their counsel, Patrick J. Coyne, pursuant to F.R.Civ.P. 56(f). *See* Appellees' Supplemental Excerpt of Record 153-56. True and correct copies of those declarations—the *only* declarations defendants filed in the District Court—are attached hereto for the Court's convenience. The documents which plaintiffs seek to strike, Tabs CC, DD and FF of the Appendix (pages 548-50 and 554-77), were neither attached to these declarations nor submitted by defendants to the District Court in any other fashion.²

This Court has repeatedly held that evidence not presented to the District Court cannot be added to the record on appeal. *See, e.g., U.S. v. Sanchez-Lopez*, 879 F.2d 541, 548 (9th Cir. 1989), ("exhibits and papers not filed with the district court or admitted into evidence are not part of the appellate record"); *Kirschner v. Uniden Corp. of America*, 842 F.2d 1074, 1077 (9th Cir. 1988) ("Papers not filed with the district court or admitted into evidence by that court are not part of the clerk's record and cannot be part of the record on appeal").

When an appellant includes in his Excerpts of Record papers not filed or admitted into evidence in the district court, those portions of the Excerpts will be stricken. *Pyramid Lake Paiute Tribe of Indians v. Hodel*, 882 F.2d 364, 367 n.1 (9th Cir. 1989); *U.S. v. Sanchez-Lopez*, 879 F.2d at 548; *Kirschner*, 842 F.2d at 1077 ("[Appellant] does not dispute that it never filed or submitted to the court below

² Nothing prevented La Mancha from presenting this purported evidence below. For example, La Mancha admits that before the District Court's summary judgment hearing plaintiffs produced in discovery the distribution agreements and copyright warning labels (Appendix 548, 554, Tabs CC & FF) upon which La Mancha relies in this appeal. (*See* Opening Brief 9-10, 23. *See also* Supp. ER 166, ¶ 9). The example of trade publication notices that La Mancha relies upon in this Court (Appendix 549, Tab DD) was also clearly available because it was distributed to the hotel trade (of which La Mancha is a part) in February, 1986, four years before the District Court dismissed the counterclaim.

the Declaration of David R. Buchanan, Excerpts of Record (ER) 236-39. The Declaration, therefore, is not part of the record on appeal and must be stricken.")

Because La Mancha chose not to present to the District Court the documents contained in its Appendix at pages 548-50 and 554-77, and designated in the Appendix as Tabs CC, DD and FF, those documents are not part of the record on appeal, and defendants may not rely on them in this Court. Therefore, under the foregoing authorities, pages 548-50 and 554-77 of defendants' Appendix should be stricken.

DATED: November 8, 1990

Respectfully submitted,

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
TERRI L. CHENEY

By: /s/ Stephen A. Kroft
STEPHEN A. KROFT
Attorneys for Plaintiffs/Counter-
Defendants/Appellees

DECLARATION OF STEPHEN A. KROFT

I, Stephen A. Kroft, declare and say as follows:

1. I am an attorney at law duly licensed to practice in the State of California and before this Court and am a partner in the firm of Rosenfeld, Meyer & Susman, attorneys of record for Plaintiffs/Counter-Defendants/Appellees ("plaintiffs").

2. I was the attorney principally responsible for filing, briefing, and arguing the motion for summary judgment which gives rise to this appeal.

3. The *only* evidence submitted by defendants in opposition to plaintiffs' motion was the Declaration of Appellant Kenneth F. Irwin ("Irwin"). See Appendix to First Cross-Appeal Brief ("Appendix") 551-53. In addition, defendants submitted the declaration of their counsel, Patrick J. Coyne, for the purpose of requesting additional discovery pursuant to F.R.Civ.P. 56(f). See Appellees' Supplemental Excerpts of Record 153-56. These were the only declarations submitted by defendants in opposition to the motion. True and correct copies of these declarations are attached hereto as Exhibits A and B for the Court's convenience.

4. The material included in defendants' Appendix at pages 548-550 and 554-77, and marked as Tabs CC, DD and FF, was not attached either to the Declaration of Mr. Irwin or to the Declaration of Mr. Coyne. Indeed, that material was not submitted to the District Court at all, and, accordingly, it was not considered by the District Court in connection with plaintiffs' motion for summary judgment.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 8th day of November, 1990, at Beverly Hills, California.

No. 90-55583

No. 90-55668

No. 90-55746

IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

(USDC - Central District
Docket No. 83-2594 WPG)

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIMS

APPELLANTS' MEMORANDUM IN OPPOSITION TO
APPELLEES' MOTION TO STRIKE PORTIONS OF
APPENDIX TO FIRST CROSS-APPEAL BRIEF

Defendants/Counter-Claimants/Appellants Professional Real Estate Investors, Inc., and Kenneth Irwin ("Irwin"), respectfully submit this memorandum in opposition to Plaintiffs'/Counter-Defendants'/Appellees' ("Appellees") Motion to Strike Portions of Appendix to First Cross-Appeal Brief. The materials which Appellees seek to strike are directly relevant to the issues on appeal. More important, the parties referred to these materials in discovery requests and in hearings and pleadings before the district court. Appellees' motion to strike must be denied.

I. BACKGROUND

Appellees' motion seeks to strike certain materials submitted in connection with Appellant Irwin's appeal of the decision of the United States District Court for the Central District of California, granting summary judgment and dismissing Irwin's counterclaims. (Exhibit 1) Irwin's counterclaims alleged that Appellees, seven major movie studios, violated the federal and California antitrust laws and the California statutory and common law regarding commercial trade practices by engaging in a pattern of anticompetitive activity, including:

- Filing of the copyright infringement action against Irwin, which Appellees knew was groundless and had admitted was groundless in other judicial proceedings;
- Filing similar copyright suits to intimate other hotels and resorts from adopting similar video rental programs;
- Boycotting and concertedly refusing to grant licenses to Irwin;
- Collectively adopting restrictions in their distribution agreements prohibiting all rentals of videos except for "home use";
- Misusing their copyrights by employing threatening notices on videos misstating that viewing of the video is restricted to "home use" and that any non-home use could subject the user to civil and criminal penalties; and
- Placing, through their trade associations, threatening advertisements in hotel trade journals warning hotels against "stealing" Appellees' copyrights by renting or using videos for viewing in the privacy of the guest lodgings.

Irwin repeatedly sought discovery on those claims, without success. Although Appellees stated that they would

provide Irwin an opportunity to inspect and copy documents, Appellees refused to provide any documents. Irwin then filed a motion to compel Appellees to produce the documents. In an attempt to move the case forward, Irwin agreed with Appellees to file cross-summary judgment motions on Appellees' claims of copyright infringement.

Following the district court's ruling in favor of Irwin on the copyright infringement claims, Irwin again attempted to secure responses to their unanswered discovery requests. Appellees again refused to cooperate and Irwin was forced to file a second motion to compel. The district court, while emphasizing that discovery is required for proper resolution of the counterclaims, stayed discovery on the counterclaims pending resolution of the appeal of the copyright infringement claims. The Ninth Circuit affirmed the district court's holding in Irwin's favor on the copyright infringement claims. Appellees then indicated that they intended to file a summary judgment motion on Irwin's counterclaims. The district court noted again that Irwin was entitled to discovery before a motion for summary judgment could be resolved. Appellees have provided no substantive information in response to Irwin's remaining requests. Despite the district court's instructions, and the fact that Appellees failed to provide any meaningful discovery, Appellees moved for summary judgment.

Without requiring Appellees to provide the discovery necessary to develop the counterclaim issues, the district court dismissed Appellants' federal antitrust counterclaims on Appellees' motion for summary judgment.¹ The basis for the dismissal was the *Noerr-Pennington* doctrine, which grants limited immunity under the antitrust laws for legitimate efforts to obtain government action. The *Noerr-Pennington* doctrine is subject to certain critical exceptions, which are at issue in this case, including: sham law-

¹ The district court also dismissed, without prejudice, Appellants' pendant state law counterclaims.

suits, improper copyright notices, threats of copyright misuse, refusals to deal, and restrictions on distribution licensing agreements. Irwin argued that several of those exceptions applied based on Appellees' pattern of anticompetitive activities.

The district court, however, considered only the allegation that Appellees filed their copyright infringement suit knowing it lacked merit. The district court made no mention of the numerous other allegations, and proof, of anticompetitive conduct presented by Irwin. Appellees' summary judgment motion was granted notwithstanding: the numerous genuine factual issues raised; Irwin's showing of the need for discovery in order to be able to respond to the summary judgment motion; and Appellees' failure to provide any meaningful discovery on these issues. In essence, Appellees were allowed to refuse to participate in discovery and then reap the benefits of that refusal by obtaining summary judgment.

Despite Appellees' refusal to provide meaningful discovery, Irwin was able to obtain the materials Appellees now seek to strike from the record. These materials consist of a copyright warning label, a trade journal article, and a distribution agreement, appearing in the Appendix at pages 548-50 and 554-77 and designated as Tabs CC, DD, and FF, respectively. (Exhibits 2, 3 and 4)

The materials in question are directly relevant to this Court's *de novo* review of the district court's decision and, in particular, to whether the district court erred in disregarding these materials as evidence of Appellees' pattern of anticompetitive conduct. Appellees do not contend that consideration of these materials will prejudice them in any way. In fact, the parties referred to the materials in question in discovery requests, hearings, and pleadings before the district court.

II. ARGUMENT

A. Because the Standard of Review Is *De Novo*, There Is No Reason to Exclude the Materials in Question

This case does not require the Court to review findings of fact relative to their basis in the record. The issue on appeal is whether, viewing the allegations of the counterclaims in the light most favorable to Irwin, there is any conceivable set of facts from which a jury could find in favor of Irwin. Irwin, however, was denied meaningful discovery in the district court and, therefore, was precluded from submitting evidence to oppose Appellees' motion for summary judgment. Appellees now move to strike from the record materials directly relevant to whether there are triable issues of fact in this case. Appellees do not contend that the Court is prohibited from considering these materials or that consideration of these materials would be prejudicial. As explained below, this Court is free to consider these materials, especially where, as is the case here, the standard of review is *de novo*.

B. The Court Should Consider the Materials Because They Are Relevant and Were Presented to the District Court

1. The Materials in Question May Be Considered by This Court

The materials in question were referred to by the parties in discovery requests, hearings, and pleadings before the district court.² A trial has not yet been held. Irwin has

² Federal Rule of Appellate Procedure 10(a) defines the record on appeal. Rule 10(a) states:

(a) **Composition of the Record on Appeal.** The original papers and exhibits filed in the district court, the transcript of proceedings, if any, and a certified copy of the docket entries prepared by the clerk of the district court shall con-

not yet had an opportunity to take meaningful deposition testimony, and has been prevented from having meaningful document discovery. Nonetheless, the precedent of this and other Circuits is clear: an appellate court may consider documents and materials not filed in the court below, particularly where the Court is reviewing *de novo* the district court's decision on summary judgment. See, e.g., *Leonard v. Dixie Well Service and Supply, Inc.*, 828 F.2d 291 (5th Cir. 1987); *Orthmann v. Apple River Campground, Inc.*, 757 F.2d 909 (7th Cir. 1985). Moreover, the Ninth Circuit has held that an appellate court may, in certain circumstances, take judicial notice of matters not considered by the lower court. *Bryant v. Carleson*, 444 F.2d 353 (9th Cir. 1971).

In *Leonard v. Dixie Well Service and Supply, Inc.*, 828 F.2d 291 (5th Cir. 1987), the district court granted summary judgment in favor of defendant. On appeal, the appellant sought to include in the record deposition testimony never filed in the district court despite a rule specifically requiring that it be filed. The parties had referred to the deposition testimony before the district court and "neither party objected to the other's use. . . ." *Id.* at 296. The Court of Appeals held that "the evidence sought to be introduced here was presented to the district court, and, although not properly filed, this court may, in its discretion, consider the evidence." *Id.* at 296.

In *Orthmann v. Apple River Campground, Inc.*, 757 F.2d 909 (7th Cir. 1985), the complaint was dismissed on the pleadings. On appeal, the appellant included in his appendix evidence not presented to the district court, including "evidence created *after* the district court dismissed his complaint." *Id.* at 914 (emphasis in original). Stating that

stitute the record on appeal in all cases.

Appellees fail to address why this case is different from others in which appellate courts have permitted the record on appeal to include materials not falling within the strict definition of Rule 10(a).

"these materials are no part of the official record . . . on appeal," the Court allowed the plaintiff to attach materials in his appendix that were not part of the record on appeal to show that the case should not have been dismissed. *Id.* at 915. It made no difference that the plaintiff, unlike Irwin, first attempted to make this showing in the record on appeal. *Id.*; see also *Waguespack v. Aetna Life and Casualty*, 795 F.2d 523 (5th Cir. 1986) (after summary judgment, where plaintiff had referred to excerpts from a deposition in hearings and pleadings in the district court, the appellate court included the deposition in the record on appeal, even though the deposition was not filed with the district court as required by local rules and it was unclear whether the district court had relied on the deposition). Hence, this Court may consider even materials that were not filed with the district court, where, as here, the standard of review is *de novo*.

2. The Materials in Question Were Presented to the District Court and Are Relevant

This is not a case in which the materials were never presented to the district court. The materials in questions were referred to in discovery requests, pleadings, and hearings before the district court:

- Copyright warning labels, trade journal article, and distribution agreement: Counterclaimants' Memorandum in Opposition to Counterdefendants' Motion for Summary Judgment (Nov. 8, 1989) (Exhibit 5; Appendix at 423);
- Copyright warning labels and distribution agreement: Declaration of James L. Seal (Dec. 11, 1989) (Exhibit 6);
- Copyright warning label and distribution agreement: Transcript of Hearing before Judge William P. Gray, United States District Court for the Central District

of California (Mar. 24, 1986) (Exhibit 7; Appendix at 345);

- Copyright warning label, trade journal article, and distribution agreement: Notice of Motion and Motion to Compel Counterdefendants to Produce Documents and for Expenses and Attorneys Fees; Memorandum in Support of Motion; Declaration of Noncompliance; and Proposed Order (Mar. 3, 1986) (Exhibit 8; Appendix at 45); and
- Copyright warning label and distribution agreement: Defendants' and Counterclaimants' Request for Production of Documents and Things Nos. 1-40 to Plaintiff and Counterdefendant Columbia Pictures Industries, Inc. (Jan. 7, 1985) (Exhibit 9).

The materials in question are directly relevant to the issues before this Court on appeal, including whether Appellants are entitled to discovery and whether there are triable issues of material fact, thereby making summary judgment inappropriate. These materials and other portions of the Appendix evidence Appellees' pattern of anticompetitive conduct and are examples of the type of evidence Irwin has been denied through discovery.

3. Appellees Have Failed to Show Why Materials Directly Relevant to the Issues on Appeal Should Be Stricken From the Record

The cases on which Appellees rely do not support striking the materials in question from the record. *U.S. v. Sanchez-Lopez*, 879 F.2d 541 (9th Cir. 1989), involved an appeal after a full trial. The appellate court merely excluded factual evidence that could have been but was not presented at trial. *Sanchez-Lopez* provides that, after a trial, an appellate court may exclude from the record on appeal factual evidence not presented at trial. The circumstances of Appellees' motion could be more different from the circumstances in *Sanchez-Lopez*. In this case, the ma-

terials in question substantiate Irwin's counterclaims and establish the existence of a triable issue of fact in the context of a summary judgment motion.

Kirschner v. Uniden Corp. of America, 842 F.2d 541 (9th Cir. 1989), was an appeal of a district court's grant of a protective order. The order was based on certain factual findings. The appellate court reviewed the lower court's decision for abuse of discretion, in contrast to the *de novo* standard required in this case. In *Kirschner*, the Court expressly distinguished its decision to exclude certain documents from the appellate record from a case, similar to this case, in which an appeal is taken from a motion to dismiss, and therefore reviewed *de novo*. *Id.* at 1978. Moreover, the stricken materials were presented to the district court in *Kirschner* only after it had issued its decision. IN contrast, the parties in this case repeatedly referred to the materials in question in discovery requests, pleadings, and hearings before the district court.

Finally, the third case relied on by appellees, *Pyramid Lake Paiute Tribe of Indians v. Hodel*, 882 F.2d 364 (9th Cir. 1989), simply applies Rule 10(a) in a one sentence footnote, and contains no analysis or reasons explaining its decision.

None of the authorities cited by Appellees addresses the question of striking documents which substantiate the allegations of the complaint on an appeal from summary judgment dismissing a complaint. None strikes materials presented repeatedly to the district court in opposition to a summary judgment motion and in support of the need for discovery to respond to such a motion.

III. CONCLUSION

WHEREFORE, for the foregoing reasons, Irwin submits that Appellees' Motion to Strike Portions of Appendix to First Cross-Appeal Brief must be denied.

Respectfully submitted,

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Dated: November 19, 1990

The Appendix to Appellants' Memorandum in Opposition to Appellees' Motion to Strike Portions of Appendix to First Cross-Appeal Brief is filed under seal in the United States Court of Appeals for the Ninth Circuit.

[Certificate of Service is omitted in this printing]

No. 90-55583

No. 90-55668

No. 90-55746

**IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

**(USDC-Central District
Docket No. 83-2594 WPG)**

COLUMBIA PICTURES INDUSTRIES, etc., et al.,
Plaintiffs/Counter-Defendants/Appellees,
vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,
Defendants/Counter-Claimants/Appellants

**APPELLEES' REPLY MEMORANDUM IN SUPPORT OF
MOTION TO STRIKE PORTIONS OF APPENDIX TO
FIRST CROSS-APPEAL BRIEF**

Appellees' pending motion to strike demonstrates that the materials which appellees request this Court to strike were never submitted to the district court and, hence, were not part of the record below. Appellants do not dispute this fact.

Instead, appellants try to justify their failure to present these documents to the district court by stating that they "referred" to the documents at various times below. (Opposition at 7-8). But such oblique references to the existence of documents does not make those documents part of the district court record. Having deliberately chosen to withhold the documents from the district court, appellants "cannot now add these documents to the record of appeal"

(*U.S. v. Walker*, 601 F.2d 1051, 1055 (9th Cir. 1979), and the documents "must be stricken." (*Kirschner v. Uniden Corp. of America*, 842 F.2d 1074, 1077 (9th Cir. 1988)).

Appellants attempt to void this result by arguing that the *de novo* standard of review applicable to the summary judgment in this appeal permits them, unlike parties in other cases, to re-open the record in order to present new evidence on appeal. (Opposition at 5). None of the cases relied upon by appellants, however, supports this bizarre interpretation of, or even discusses, this Court's *de novo* standard of review.

Bryant v. Carlson, 444 F.2d 353 (9th Cir. 1971), the sole Ninth Circuit case cited by appellants, held only that in an interlocutory appeal pursuant to 28 U.S.C. § 1292(b), an appellate court may take judicial notice of judicial proceedings occurring after the § 1292(b) appeal has been taken. *Bryant*, however, did not hold that documents outside the district court record may be considered by the court of appeals. In *Leonard v. Dixie Well Service & Supply, Inc.*, 828 F.2d 291 (5th Cir. 1987), and *Waguespack v. Aegtna Life & Cas. Co.*, 795 F.2d 523 (5th Cir. 1986), unlike here, the evidence at issue was in the district court record; the only question in those cases was whether the evidence had been presented in proper form. Finally, *Orthmann v. Apple River Campground, Inc.*, 757 F.2d 909 (7th Cir. 1985) emphasized, as do this Court's decisions, that materials outside the district court record are *not* part of the record on appeal and "have no standing as evidence" in the court of appeals. 757 F.2d at 914-15.¹

For the reasons set forth in appellees' moving papers, as well as those set forth above, appellees' motion to strike should be granted.

¹ Moreover, as Appellees' Brief makes clear, even if the extra-record material relied upon by appellants could be considered as evidence in this appeal, it would not justify reversal. See Appellees' Brief 35-36.

DATED: November 28, 1990

Respectfully submitted,

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No. 90-55583

No. 90-55668

No. 90-55746

IN THE
UNITED STATES COURT OF APPEALS
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(USDC-Central District
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Defendants/Counter-Claimants/Appellants

**APPELLANTS' SUPPLEMENTAL MEMORANDUM IN
OPPOSITION TO APPELLEES' MOTION TO STRIKE
PORTIONS OF APPENDIX TO FIRST CROSS-APPEAL
BRIEF**

This memorandum is to notify the Court that Professional Real Estate Investors, Inc. and Kenneth F. Irwin, appellants, have located in the District Court files one of the documents appellees seek to strike. Specifically, the copyright warning label attached as Tab CC to the Appendix to First Cross-Appeal Brief was filed as Exhibit 10 to Irwin's Declarations and Exhibits in Support of Defendants' Cross-Motion for Summary Judgment and in Opposition to Plaintiffs' Motion for Summary Judgment filed on October 21, 1985, with the United States District Court, Central District of California, in Matter No. 83-2594WPG. As a result, the basis of appellees' motion to

strike this document—that it was not part of the District Court record—is moot.

Appellees have also attempted to file a "reply memorandum." Appellees did not seek leave of this Court to file the reply nor can they justify the need for it. The Federal Rules of Appellate Procedure and the Ninth Circuit Rules do not provide for the filing of replies to motions to strike. Fed. R. App. P. 27(a); Circuit Rule 27-1. As a result, this "reply memorandum" should not be accepted for filing.

Respectfully submitted,

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Dated: December 10, 1990

[Certificate of Service omitted in this printing]